HOW TO PLAN PENSIONS

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A Guidebook for Business and Industry

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HOW TO PLAN PENSIONS

PREFACE

This book is intended to provide background information and to be a guide to action for the man who must decide pension policy; for the pension negotiator; for the man who sits on a pensions committee; for the man who is called upon to offer informed, yet nontechnical, opinions in management and union discussions of pensions; for the man who must handle pension grievances and answer workers' questions; and (one may hope) for the "opinion makers" and public servants whose knowledge of pensions (or lack of it) will play so large a part in determining future policy.

It is not intended to provide the actuarial, financial, and legal information required by technicians in those specialized fields of pension planning and administration.

Why?

On November 7, 1949, the editors of *Factory Management and Maintenance* sat down at a round table with a group of men who represented a good cross section of industry. They were from various levels of management, and they had greatly varying degrees of interest in pensions. The editors asked them, in effect, these two questions:

"What do *you* think a man with your business responsibilities needs to know about pensions?"

"What do *you* want to know about pensions, as a matter of personal interest?"

The immediate result of that round table was to give the editors specific questions on which we drew for an article which appeared in the December, 1949, issue of the magazine.

In a different sense, it might also be said that this book is a result of that conference. What was, up to that point, little more than a nebulous idea and a largely disjointed collection of notes was given purpose and direction. Some of the questions raised at that conference were requests for sources of information about pensions at the industrial relations and employee relations level. Other questions, less directly, indicated a desire for this same type of information. Specific questions, on the other hand, ran the whole gamut from retroactive tax penalties for violation of the nondiversion rule to the effect on future pension trends of the steel industry settlements and John L. Lewis' latest actions.

To me, this indicated a need for a guidebook on pensions that would be comprehensive in one sense and limited in scope in another. Comprehensive in that it would deal with all phases of the pension problem which affect business and industry. Limited in that it would not attempt to make experts out of laymen where there is no need for doing so; that it would review only the practical implications of those phases of the problem that are best left to expert technicians.

Such an objective necessarily imposed four conditions:

1. The language must be simple and straightforward; the technical terminology of the pension expert must be avoided. I have tried to do this; I know that there are places where I have not fully succeeded. Certain terms and phrases occur frequently, yet could be avoided only by lengthy explanations. To speed up the reading, I have occasionally resorted to semi-technical terms and phrases. Every effort was made to explain such terms in detail the first time they were used; in any event, I believe that every such term used in this book is explained in the Glossary in Appendix 10.

2. Emphasis must be placed on the collective bargaining aspect of pensions; and in this respect, above all others, the

book must be timely. In so far as I was able to make changes even after the manuscript had been turned over to the publisher, information in the text reflects developments up to the date of this writing. The reader should be warned, however, that pensions have been in the area of statutory bargaining for too short a time for many questions to be answered definitively. In some cases, only arbitration awards can be cited as precedent. These may be upheld or overturned as similar cases come before other arbitrators, the NLRB, or the courts. In still other instances, no precedent at all exists; only informed opinion can be offered. The pension picture is changing so rapidly that the negotiator, particularly, will have to modify certain sections of this book in the light of future developments in the field—and in the light of possible changes in state and federal laws relating to pensions.

3. The problem of pension costs must not be side-stepped as "too complex." No attempt is made to minimize the complexity of the problem, or to avoid the controversy surrounding this problem. It is impossible to talk about any phase of pensions and not talk about costs. Yet it is necessary to understand other elements of the pension problem before you can make an accurate appraisal of costs. The basic point on costs—the reason for the complexity and controversy—is this: Pension costs are largely determined by how long workers will live and how much interest money will earn *in the future*. Predictions of future experience are based on mortality tables—statistical records of *past experience*. Many such tables are available, and it is a matter of real argument as to which, if any, is appropriate in a given situation. For the purpose of this book, I have arbitrarily assumed that pension costs will be most accurately predicted by using the Standard Annuity Mortality Table with an interest rate of 2¼ per cent. Unless otherwise indicated, cost figures are based on that assumption.

4. The emotional involvements of workers, management, and unions in the pension issue must be examined and assessed. It must be recognized that pensions are fully as much an emotional issue as they are a legal or financial issue. The man who is fully informed is no less likely to have strong prejudices than is the man who is completely uninformed; if anything, his prejudices may be more deep-rooted because he will feel they are convictions based on real understanding (as, indeed, they may sometimes be). Unfortunately, the mechanical process of writing a book does not insure objectivity. I have tried to reflect accurately the points of view of both management and unions. Too little is known of what the worker really thinks about the subject; where his views are known, I have tried to emphasize them. As a guide to your thinking, it is only fair for me to report that in a choice between giving no consideration to the emotional factors in a situation and possibly reflecting a personal bias in analyzing the emotions of others, I have generally leaned toward the latter. My reason for this decision is a conviction (or is it a prejudice?) that the future course of pensions will be more affected by emotions than by any rational factors.

Finally, a word of appreciation to four people without whose understanding and cooperation this book could not have been written:

M. J. Murphy, Associate Editor of *Factory*. Matt was more than generous with his time in listening to my ideas, helping me refine them, and suggesting many that I had overlooked in my preoccupation with the problems immediately at hand.

Paul R. King, Assistant to the Director of Personnel Administration, Bigelow-Sanford Carpet Company, and Consulting Editor of *Factory*. His long association with the problems of pension planning provided a valuable source of information

on which he let me draw freely. He gave me a more detailed view than would otherwise have been possible of the new role of the labor negotiator and the pitfalls that he must avoid.

Harry Lee Waddell, Editor of *Factory*. His encouragement and enthusiasm for the project were instrumental in getting the job started. His willingness to let me draw on both published articles in *Factory* and on the wealth of unpublished material in *Factory's* files made it possible to finish.

My wife, Jean, who put up with long hours, a living-room-turned-reference-library-and-office, and the necessity of becoming a full-time secretary during the final weeks of manuscript preparation.

CARROLL W. BOYCE

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PART ONE

THE PENSION PROBLEM

CHAPTER 1

WHAT IS THE PROBLEM?

WHY ALL THE ARGUMENT?

Pensions are not really something new. They have been with us in a formal sense on the industrial and business scene for half a century. But they have suddenly become a factor of major importance on that scene. The reason for this new-found importance is simple: The courts have upheld the National Labor Relations Board's ruling that an employer must bargain in good faith on a demand for pensions made by a certified union representing the employer's workers. But the mere finding of a court is certainly not the whole explanation.

The recent spread of pension plans finds its roots in the so-called "wage stabilization policy" of the war years. Labor was scarce and profits were high. To control inflation, numerous restrictions were placed on increases in basic wage rates. Add to this the fact that a wartime excess profits tax sometimes took as much as 90 cents on the dollar, and it is not hard to understand why many employers adopted pension plans (and other types of welfare plans) as a means of providing additional compensation to attract and hold employees.

Table 1-1 provides dramatic evidence of the wartime growth of pension plans. Data are from the Bureau of Internal Revenue and are based on pension plans which qualified for tax-exempt rulings through August 31, 1946.

The National War Labor Board also helped set the stage for the present wave of union demands for negotiated pension

plans. While it was not the Board's policy to order the establishment of pension plans where none existed before, in many cases the Board ordered the employer to include an already-existing unilaterally established pension plan in the labor agreement.

TABLE 1-1

*Period in which plan became effective**	*Number of plans*	*Number of participating employees* †
Prior to 1930	105	1,394,184
1930 to 1939	517	530,606
1-1-40 to 9-1-42	843	450,008
9-2-42 to 12-31-44	4,208	714,681
1945 and 1946 ‡	1,189	201,129
Total	6,862	3,290,608

* Represents the period in which the "effective date" of the plan fell, which often preceded or sometimes followed the date of actual adoption. In cases where the plan was very materially amended, it may represent the period in which the effective date of amendment fell.

† Represents employees covered by the plan at the date as of which information was submitted in connection with the application for a ruling on the plan. Includes all employees nominally covered under the plan even though a large number of such employees may never receive any benefits under it.

‡ Excludes a substantial portion of plans effective in 1946 and some plans effective in 1945 for which favorable rulings were not issued and processed until after August 31, 1946.

In the light of the present-day NLRB and court decisions that pensions are bargainable as "wages," it is ironic to look back and see that the great wartime spread of pension plans was based on an absolutely opposite doctrine. The Wage Stabilization Act of 1942, as amended, placed restrictions on wage and salary increases. But Section 10 of that Act de-

fined "wages" and "salaries" in such a way as to *exclude* insurance and pension benefits in reasonable amount. There is irony, too, in the fact that the NLRB and the President's Steel Industry (fact-finding) Board have relied to a considerable extent on the Labor Management Relations Act of 1947 (Taft-Hartley Act) in deciding that pensions are a bargainable issue.

The key case in determining whether or not pensions are subject to collective bargaining was that of the Inland Steel Company. Inland established a pension plan on January 1, 1936. Retirement age was set at 65, and section 3 provided, "No employee shall be retained in active service after the normal retirement date except upon year to year approval of the Board [of directors]." Because of the urgent need to keep every available man on the job to turn out war production, Inland (and practically every other company with a compulsory retirement age) approved delays in retirement beyond the normal retirement age almost automatically. With war's end, the normal retirement date began to take on some meaning again. Finally the CIO Steelworkers Union charged the Inland Steel Company with an unfair labor practice before the National Labor Relations Board on the basis that compulsory retirement constituted a "condition of employment" subject to collective bargaining. In April of 1948, the NLRB ruled on the issue. In a four-to-one decision, the Board adopted the recommendations of its trial examiner, ruling that pension and retirement plans are within the area of collective bargaining. The Board found that the company had refused to discuss with the union the amendment and application of the terms of the plan originally established by the company. This refusal to bargain, the Board found, amounted to an unfair labor practice in that the company's unilateral action on amendments to the plan changed the employee's "wages" and

"conditions of employment." The Board held that "wages" include "emoluments of value, like pension and insurance benefits, which may accrue to employees out of their employment relationship." The company's contribution to the plan, the Board said, "constitutes an economic enhancement of the employee's wages." With reference to the effect of the company's unilateral action (in imposing a compulsory retirement age), the Board held that "matters affecting tenure of employment like the respondent's retirement rule, lie within the statutory scope of collective bargaining."

The Board's ruling relied heavily on the legislative history of the Taft-Hartley Act. The Board found what it considered "compelling evidence" that Congress intended to cover pension and retirement plans within the meaning of "wages or other conditions of employment" as those terms were used in the Wagner Act. As evidence of Congressional willingness to "allow that conclusion to stand," the Board cited the fact that these provisions had been reenacted without change and that Section 302 of the Taft-Hartley Act had specifically recognized the existence of pension and retirement plans within the area of collective bargaining.

The second key case was that of W. W. Cross and Company. Here, the United Steelworkers (CIO) charged the company with an unfair labor practice on the basis that it refused to include in contract negotiations the terms of a company-sponsored group health and accident insurance plan. Both the trial examiner and the NLRB used the same line of reasoning as in the Inland Steel case to come to the conclusion that the company had a statutory duty to bargain collectively on the terms of its health and insurance program.

More than two years were to pass before the necessary National Labor Relations Board rulings and court tests could be completed on these two cases. By the summer of 1949, these

two cases taken together had removed any possible doubt of an employer's legal obligation to bargain in good faith on a demand for pensions, retirement plans, or associated benefits made by a properly certified union.

THE BLOWUP OF 1949

At the same time that successive NLRB and court decisions were adding fuel to the pension fire, the unions were rapidly exhausting any possibility of further increases in direct wages. Each of the first three "rounds" of wage increases had been followed by a substantial round of inflationary price increases. There was growing doubt in the minds of both union members and the public at large that another round of wage increases would not be followed by offsetting price increases. Then came the business setback of 1949 and the decision of the New England textile industry arbitrator denying a wage increase. That pretty well put a halt to union hopes for a fourth round and sent organized labor off in a search for something else to "deliver" to its membership in place of a wage increase.

The broad program of social welfare proposed by the second Truman Administration and the comparatively widespread unemployment in the spring of 1949 provided just the right psychological preparation for the unions to launch a major offensive on the pension front.

The issue began to come to a head in July, when the United Steelworkers threatened a strike to enforce its demands for a general wage increase, health and welfare benefits, and pensions. The strike was temporarily averted when the union and the employers agreed to have the dispute placed in the hands of a special Steel Industry Board to be named by the President and to have the power of recommendation. (It is to be noted that this Board differed from those provided in the Taft-

Hartley Act in that it had power to make recommendations. The President, however, specifically accepted the reservation of the steel producers that the Board's recommendations were not to be considered binding on either party.) There were many people who felt that this Board would follow the pattern of many others before it and make a recommendation based primarily on considerations of expediency. It was generally expected that the recommendation would be for a general wage increase of perhaps 6 to 10 cents an hour, with 2 to 4 cents an hour additional for health and welfare benefits—and that a pension settlement should be delayed until 1950.

There was a good deal of surprise and some shock at the actual recommendation of the Board that the producers establish noncontributory pensions for the steelworkers. This was tempered, however, by general relief over the Board's further recommendation that the pension problem be turned over to committees in each company for exhaustive study *before* bargaining on pensions be included in new contracts to become effective in April, 1950. The Board filed its report on September 10, 1949. The United Steelworkers immediately issued a call to the producers to accept the recommendations of the Board and to begin negotiations. The producers countered with a reminder that they had not agreed in advance to accept the recommendations of the Board but offered to begin negotiations with the understanding that they were not committed in advance to acceptance of the noncontributory principle on pensions. The Steelworkers refused to negotiate until the Board's recommendations had been accepted *in full.* There the issue stood until September 28, when the Ford Motor Company stunned the whole business world by signing an agreement with the United Auto Workers calling for noncontributory pensions along almost exactly the same lines that

had been recommended by the Steel Industry Board. Fortified by the argument that "if Ford can do it, so can the steel companies," on October 1 the CIO Steelworkers ripped the lid off the whole pension business by striking all major producers to force their demands for *immediate* acceptance of the Board's recommendations. By doing so, the Steelworkers gave American industry and business a convincing demonstration—if one were needed—that union members really are willing to "hit the bricks" to enforce demands for so "abstract" an issue as pensions.

The pattern of the settlements in the steel industry is too familiar to require recital here. The so-called "pace setter" was the Bethlehem Steel plan. Its principal features will be found in the chart in Appendix 1, pages 366 to 369, where it is compared with the Ford plan and with the CIO's own plan for its office workers in Washington. Because of a pre-existing noncontributory unit-benefit plan at Bethlehem, this settlement is not entirely typical of those in the steel industry. More nearly the "pattern" settlement is the optional noncontributory flat $100-a-month plan adopted by the Inland Steel Company. The complete text of the Memorandum of Agreement between Inland Steel and the CIO Steelworkers covering this plan will be found in Appendix 3, pages 374 to 385.

With the break-through achieved on the legal front and a firm foothold established in the steel industry, management faces the virtual certainty of more and more pension demands. An important point to keep in mind is this: Up to the time the Steelworkers walked off the job, many unions were only half serious in their pension demands. They looked upon such demands as mere talking points to be bargained away for some minor concession. That situation no longer exists. The union leadership, as much as management, now has ample proof of the fact that workers are pension-minded.

STARTING POINT FOR MANAGEMENT

When this country was in the depths of the depression, President Roosevelt said, "The only thing we have to fear is fear itself." Taken literally, the statement was inaccurate. But it did have a good basis in fact. Roosevelt understood, as psychologists have long understood, that no problem is quite so frightening as one you cannot understand.

Somewhat the same thing is true of pensions today. Pensions are a complicated, technical, and dangerous business for any employer. It would be not only naive but inaccurate to say that merely understanding the problem will eliminate the danger. But it is perfectly accurate to say that where the problem is thoroughly understood there is far more chance of avoiding the dangers which are inherent in it.

In the chapters that follow, we're going to take a look at some of the things that are involved in planning a pension. Some of the problems that will be talked about and some of the terms that will be defined will be strictly "old stuff" to the man who has been dealing with pensions for a long time. Actuaries might well tell you that some points have been glossed over or that certain details have been omitted. This is undoubtedly true from the point of view of the man who has to do the detail planning of the pension program. But the management man who must make pension decisions or handle pension problems does not need to be capable of designing the details of the pension plan. It would be just as unnecessary to require that both the president and local business office manager of a telephone company be capable of designing and building an intricate crossbar frame. Obviously, the president of the company must be sufficiently well acquainted with the nature of all of the operations so that he can discuss a proposition intelligently when the details are

laid before him. Likewise the business office manager must have a sufficient grasp of the operations to be able to placate an irate customer when something goes wrong. The situation with pensions is just about the same.

So the first thing to do is to examine the various parts of the apparatus, find out what they are, where they fit into the whole, and why they are important. Then we will take a look at the whole picture and see what some of the factors are that govern basic decisions that must be made, both as regards the situation as it exists today and as it seems likely to exist in the future.

CHAPTER 2

WHAT DO PENSIONS COST?

The question in almost everybody's mind today is this: *How much does a pension cost?*

There isn't any single answer to that question. There are as many different answers as there are types of pension plans. And even beyond that, a given pension plan will cost a great deal more for some companies than for others, depending on such factors as the present age of the work force, turnover rate, hiring policy, etc.

To hear some unions tell it, you'd think a pension of $100 a month at age 65 was just a matter of a few cents an hour. If you start a pension for a worker when he is less than 30 years old, that would be true. But it would not be true if you start a pension for a worker when he's 40 or 50 or 65. Here's why.

The standard annuity table—that's the table used by most insurance companies in figuring pension costs—shows that the average male of 65 will live another 14.4 years, or 172.8 months. That means the average worker retired at 65 under a $100-a-month plan will receive a total of $17,280 in pension payments.

Allowing for the fact that the money accumulated to pay pension benefits will earn interest, roughly $15,400 must be in the "pension account" of each employee when he reaches 65. You can accumulate this sum by setting aside roughly $279 a year for each employee—if the employee is only 30 years old when you start setting aside. That's about 14 cents an hour for

a 2,000-hour year. But if the employee is already 64, you'd have to put up the whole $15,400 in a single year—more than $7 an hour. The older the employee when you start a pension plan, the more you have to put up per hour.

Some unions claim it is as simple as this: If 10 employees are ready for retirement, the cost will be 10 times $1,200 or $12,000 a year.

As a "first-year-cost" proposition, the union is correct, but what the union sometimes neglects to mention is the 10 additional employees who presumably will retire each year. At the end of 14.4 years (when the first 10 pensioners—according to actuarial expectations—will die) you will have 144 ex-employees on pension. If the number retiring each year remains constant, on the average you will have 144 ex-employees on pension at all times after that. So your cost will be 144 × $1,200, or $172,800 a year. That is $18,800 more per year than if you had put up the full $15,400 for each of the 10 workers per year as they reach retirement. Roughly, the cost of the two plans would equalize at the end of about 12 years. The difference in the cost of the two plans is accounted for by the interest earned on money set aside.

The arrangement that the union in the above example was asking for is called an "unfunded" plan. Some unions go in for it in a big way because of its low initial cost. They think it is their only chance of establishing the pension principle in contracts. Other, more conservative, unions wouldn't touch it with a ten-foot pole. These unions have managed to keep their eye on the heart of the problem: What happens to an unfunded plan when the company has a bad year financially? The answer is obvious: Retired employees are left high and dry.

A union genuinely interested in the welfare of its rank and file will demand, as a minimum, that each employee's pension be fully funded on the day the employee retires. By doing so,

at least the employee who has retired is guaranteed an income for life, even if the company should go bankrupt.

"RULE OF THUMB"

Because pensions are so complicated and the stakes are so high, you should not attempt to use a rule of thumb in actually arriving at decisions. And you certainly won't want to use any such oversimplified formula in any discussions you may have with the union on the subject. With that warning, here's a rule of thumb for making very rough estimates of pension costs:

Estimate what the average monthly pension of your retired employees is likely to be. Call this A.

Estimate the number of employees who are likely to retire each year. Call this B.

We have already seen that \$15,400 (on day of retirement, at age 65) will provide a pension of \$100 a month. By dividing, we find that \$154 is required to provide a pension of \$1 per month.

Putting those three elements together, we see that the annual cost of a pension (call this C) is \$154 times the average monthly pension in dollars times the average number of employees who will retire each year. Expressed as a formula, this is

$$C = \$154 \times A \times B$$

That formula would assume that the employer put aside no money toward the pension until the employee actually reached retirement age. In practice, this may not be the case. So you can go one step farther and figure out the average age of employees when you start paying into their "pension account." From that, you can determine the amount of interest that will be earned by the money you put aside before it is actually used to start paying or to "purchase" the pension.

Let's say you find that, on the average, your employees are 45 years of age when you start setting money aside for their pension. With an interest rate of 2 per cent per year (in the present market, you can't count on much more than that) you would have to put up only 72 cents if you want to have $1 twenty years hence. So you will have to put up each year only 72 per cent of the amount determined by the formula. Because of the tremendous effect of compounding interest annually, if the rate should rise to 3 per cent you would need to put up only 55.2 per cent of the amount determined by the formula (assuming the same 20-year average period). The tables in Appendix 8, pages 421 to 428, permit you to figure out the effect of varying interest rates for any period.

Basically, the formula would be the same with a pension based on both income and length of service. Of course, it would become much more difficult to estimate average monthly retirement income, particularly in periods many years away (because it will be based on earnings under contracts which have not yet been written). And where you have a guaranteed minimum monthly pension, it would be necessary to use the formula twice. First you would determine the cost of providing the pension for those who come under the minimum guarantee. The second, and separate, computation would be the cost of the pension for those who will receive more than the minimum guarantee.

BETHLEHEM PLAN

One of the arguments that raged in the fall of 1949 was how much the so-called "steel pattern" settlements would cost. Most of the speculation centered around the cost of the Bethlehem plan. The Steel Industry Board said that, "On the basis of the union's estimate 6 cents per hour on a 2,000-hour year would bring about $70 per month, which when added to the

average amount now payable under the Social Security Act will provide somewhat more than $100 per month on retirement." The Bethlehem plan actually provides for a monthly retirement income equal to 1 per cent of average monthly earnings in the 10 years preceding retirement times the number of years of continuous service, with a *minimum* pension of $100 a month including Social Security. This is considerably more liberal than the recommendation of the Board. Three of the pensions currently being paid exceed $25,000 per year; one is for $76,968 a year. Taking such factors into consideration, the cost of the plan to Bethlehem was variously estimated at from 9 to 12 cents per hour.

On December 19, 1949, in a letter to stockholders of the Bethlehem Steel Corporation, Eugene C. Grace gave sufficient information to make possible some very rough estimates of the actual cost.

Mr. Grace reported that as of November 30, 1949, there were 3,707 living retired former employees. If we assume a uniform retirement rate, and taking average life expectancy after age 65 as 14.4 years, we would find that 257 employees were being retired each year. Mr. Grace also stated that for the first 10 months of 1949 actual pension payments to retired employees amounted to $2,287,948. That is an annual rate for 1949 of approximately $2,734,000. Dividing this annual rate by the life expectancy of 14.4 years, we find that approximately $190,000 was being paid to employees who could be expected to die during the year 1949.

Mr. Grace also reported that actual pension payments for the full year of 1948 amounted to $2,523,267. The net increase from 1948 to 1949 was therefore approximately $210,000. Adding this to the payments of $190,000 for employees who presumably died during the year, we find that the total of new pensions granted during 1949 was approxi-

mately $400,000 per year. Dividing this figure by 12 months in the year and again by 257 employees retiring during the year, we find that the average monthly pension granted during 1949 was approximately $130 per month, exclusive of Social Security. Substituting in the formula

$$C = \$154 \times A \times B$$

We have

$$C = \$154 \times \$130 \times 257$$

$$C = \$5,145,140$$

Actually, Mr. Grace reported "the amount charged to current earnings . . . on account of pensions . . . during the 10 months ending October 31, 1949, is $4,468,402." That is an annual rate of approximately $5,361,000. However, Mr. Grace did not report the number of employees receiving less than the $100 minimum provided by the new pension plan. The most conservative assumption, therefore, would be that the corporation would have to pay the cost of the new minimum pension for every retiring employee. The previous minimum was $50 a month; to provide a minimum of $100, it would be necessary to provide an additional pension of $50 a month for each retiring employee. (Since maximum Social Security benefits at the present time amount to $39.55 per month, this will not affect a change in the minimum from $50 to $100. It is less than the present minimum.) Using the formula again, we have

$$C = \$154 \times \$50 \times 257$$

$$C = \$1,978,900$$

Mr. Grace reported that if the new minimums had been in effect (along with the new provisions for disability pensions),

the actual cost for the first 10 months of 1949 would have been increased by $1,116,723. On an annual basis, that would mean an increase in cost of approximately $1,340,000. Adding the actual 1949 cost and the theoretical increase for 1949, we find that the cost of the new pension plans at Bethlehem Steel Corporation would have been roughly $6,700,000 for the year. By the "rule of thumb" we would have arrived at a figure of $7,125,000. A discrepancy of $425,000 is important, to be sure (and would have been even more important had it been in the other direction, as could have been the case in another situation), but the fact remains that the result was clearly within the plus or minus 10 per cent that one can reasonably hope to achieve with such a rule of thumb.

One question remains: What do these figures mean in terms of per cent per hour and per cent of payroll? Mr. Grace provided rough information from which we can answer those questions. He reported that the corporation had approximately 130,000 employees as of November 30, 1949. If we assume a 2,000-hour year (as the Steel Industry Board did), we find that the cost per hour would have been approximately 2.6 cents for the year 1949. No figure for total payroll for 1949 is available, but Mr. Grace did report this to be $490,000,000 for 1948. If we assume that roughly the same figure holds for 1949, we find that the cost of the new pension plan is approximately 1.4 per cent of payroll.

In discussing the possible *future cost* of the Bethlehem plan, Mr. Grace indicated that on the basis of current earnings and probable retirements in 1950 and 1951, the total cost of pensions for the corporation would be between $7,500,000 and $10,000,000 in each of those years. If we take the higher of those two figures, and assume that the number of employees and total payroll will not change, the cost could be expressed as 3.9 cents per hour, or 2.1 per cent of payroll.

One factor has not been included in these calculations of potential pension cost for Bethlehem. That is the cost of increasing to the new minimum the pensions of employees already retired. Mr. Grace estimates that this "may be as much as $10,000,000, most or all of which may be provided in 1950." If this entire charge is, in fact, made in 1950, the cost for that year will be 7.8 cents per hour, or 4.2 per cent of payroll, after which it will fall to the previously cited figures of 3.9 cents per hour and 2.1 per cent of payroll.

CIO PLAN

The CIO (as an employer) has come up with an interesting combination of the benefit and money-purchase type of plans in its contract with the United Office and Professional Workers of America (a CIO union). Under this plan, the CIO contributes 6 per cent of the worker's salary to a pension fund. Seven-eighths of this amount goes into a special account set up in the worker's own name. Whatever amount is in this special account is fully vested in the worker. The remaining one-eighth of the CIO's contribution goes into a special "contingency account." The CIO uses this contingency account to back up a promise for a minimum retirement benefit of $100 a month at age 65, including Social Security. The actual monthly pension is figured as the total amount of money (including interest) in the worker's pension account at retirement, divided by 144. (Based on 1937 mortality experience, $144 is adequate to provide a monthly retirement income of $1 at age 65 if you assume an interest rate slightly more than 2½ per cent and make no allowance for administrative expense.) If the amount so determined plus Social Security is less than $100 a month, the employer (CIO) makes up the difference out of the contingency fund (and presumably out of pocket if the fund is short). If it is more than $100, the worker gets the full amount.

While such a plan sounds appealing in many ways, it would be almost certain to fail because of insufficient funds if you tried to use it for other than a very high income or very high turnover group. Here is why: Social Security provides about $40 a month, so the money in the worker's pension account at age 65 would have to be sufficient to provide an income of $60 a month. That is $60 times 144, or $8,640. Assuming 2½ per cent interest, it would require $196.30 every year for 30 years to accumulate this amount. By working backward in the formula, we see that this $196.30 must be equal to seven-eighths of 6 per cent of the employee's earnings. So for the CIO's formula to produce a retirement income of $100 a month including Social Security (without tapping the contingency fund) the employee would have to earn $3,740 a year for the 30 years preceding retirement. Because of the effect of compound interest, an employee with less than 30 years would have to have very much higher earnings. If you take the case of a 30-year employee earning $200 a month under this plan, you would find that a full 40 per cent of the retirement income to be provided by the employer would have to be paid out of the contingency fund. How long the CIO will be able to continue paying the promised minimum benefits on the basis of a 6 per cent contribution is doubtful. The organization may be temporarily "saved" by an increase in the Social Security benefits, but in view of the fact that no minimum period of service is specified to qualify for retirement benefits, it is hard to see how the CIO can hold out for long.

A WARNING ON COSTS

Possibly the most dangerous conclusions one can make in the entire field of pensions is that the cost of a given plan will be the same for one company as for another. Specifically, it would be a totally unwarranted conclusion to say that because

the Bethlehem plan only costs the Bethlehem Steel Corporation an estimated 2.1 per cent of payroll, it would only cost your company 2.1 per cent of payroll.

For example, the American Telephone and Telegraph Company and its affiliated companies have for many years had a plan very similar to the Bethlehem plan. The Telephone plan provides a pension of 1 per cent of average earnings during the highest-paid ten years, times years of service. The minimum pension, after 20 years of service, at age 65 has been set at $50 a month, including one-half of Social Security. The published figures of the companies indicate that the cost of this pension plan is 6.3 per cent of payroll. Part of the difference in cost of the Telephone and Bethlehem plans is accounted for by the fact that Bethlehem credits all of Social Security toward the pension while the Telephone Company credits only half. But other factors, such as turnover, average length of service, average hiring age, and so forth, which have nothing to do with the plan itself, are far more important.

To cite just one more example, a certain New England manufacturer had a consultant install a pension plan for him. The cost was computed at slightly over 3½ cents per hour. Another manufacturer in the same town heard about it, went to the same consultant, and said in effect, "I want that plan in my company." After studying all the factors involved, the consultant had to go back to the company management and report that the identical plan would cost slightly more than 12 cents an hour.

Actual computations of pension costs are a job for your expert. He may be a representative of an insurance company, a trust company, or a pension consultant. If you want to get some idea of the complexity of the problem, get hold of a copy of the "Bulletin on Sections 23(*p*)(1)(*A*) and (*B*)" issued June 1, 1945, by the Collector of Internal Revenue. A sub-

stantial portion of this bulletin is devoted to sample calculations of the first- and second-year costs of the very simplest type of pension plan by four different cost methods.

This bulletin is not mentioned here to suggest that anyone other than the pension specialist should arm himself with sufficient information to be able to make such computations based even on the simplest assumptions. Rather, it is mentioned as a possible persuader to overcome the type of attitude displayed in the probably apocryphal story of the union negotiator who was determined to ask his company for the "Bethlehem plan." A friend is reported to have asked this negotiator what he would do if the company asked for details of the Bethlehem plan. His answer was simple: "I'll say, 'What are you trying to do, break the union?' "

Pensions are just not that simple. Broadly, there are some eleven factors within the control of the negotiators which may have a pronounced effect on the cost of pensions. What these factors are, how they influence cost, and the problems that each presents to both the general management man and to the negotiator will be considered in the succeeding chapters.

PART TWO

THE PLANNING PROBLEM

Chapter 3

ELIGIBILITY

MANAGEMENT REVIEW

Eligibility is basically a definition of who gets a pension. The four principal bases by which eligibility is determined are age, service, income, and job classification.

You don't have to include every one of your workers in a pension plan. There may be a number of reasons for this. You may simply want to limit your pension cost. You may feel that one group of workers is entitled to preferential pension treatment as opposed to another. You may want to give your pension plan an "award" character, so you make it available only to those who have met specified conditions. You may want to simplify your administrative problem by eliminating groups of workers in which turnover is high or where work is of a transient or seasonal character.

All of these things are possible. The one general limitation on eligibility requirements is that they do not result in discrimination in favor of officers, stockholders, supervisors, or highly paid employees. If the Collector of Internal Revenue should decide that your eligibility requirements did discriminate in this way, he could refuse to grant tax exemption to your plan.

Obviously, any eligibility requirement that has the effect of applying the pension to less than all of the workers on your payroll will reduce the cost of the pension.

Perhaps the most common eligibility requirement is for a

minimum period of service in the company's employ. This is particularly true if the plan is to be fully or partially funded (rather than pay-as-you-go). Under such a plan you have to start setting money aside for each employee as he becomes eligible. Obviously, you don't want to start paying in for a given worker until you're fairly sure he is a permanent employee. So it is not unusual to require anywhere from 6 months to 5 years of service before an employee can participate in the pension plan. Such an eligibility requirement serves two purposes: It establishes an objective for the new employee entering the company; and it eliminates the group of workers among whom the turnover could reasonably be expected to be greatest. (Unless the plan is fully vested, the employee will not take these contributions with him, but there will be a good deal of administrative cost avoided if the employer does not have to set up a separate account and then close it out after a period of a few months or years. If the plan is carried by an insurance company, the employer will also avoid paying a surrender charge to get the money paid to the insurance company returned to the general fund.)

Besides eliminating the high-turnover group, establishing a service requirement for eligibility will limit considerably your pension liability as regards employees who enter the company at a relatively advanced age.

Example: Pension benefits in your plan are in direct ratio to years of participation. If a man enters your employ at age 45, he will have 20 years of service by the time he reaches a normal retirement age of 65. If, however, you have a requirement of 5 years' service before an employee is eligible, this man's *participating* service will be limited to 15 years. Your pension liability will thereby be reduced one-fourth. (If a man entered your employ at

age 20, the 5-year eligibility requirement would reduce your pension liability by one-ninth.)

Both upper and lower age limits may restrict participation in the pension plan. The lower age limit is more common. This servies to limit the piling up of pension benefits based on *future* service.

Example: If the lower age limit for eligibility is set at 35, then a worker can accumulate 30 years of future service credit before retirement at age 65. If, however, the eligibility requirement is 25 years, he would be able to accumulate as much as 40 years of future service credit. If pension payments and years of participating service are in direct ratio, you would be increasing your liability by one-third if you set the eligibility limit at 25 (possible future service, 40 years) instead of at 35 (possible future service, 30 years).

A combination of both age and service requirements for eligibility is not uncommon. This combination keeps out the high-turnover group, limits the amount of future service credits, and for employees above the eligibility age when hired, serves further to reduce your pension cost if service determines the size of the payments.

An upper age limit is almost always a result of cost considerations. It is sometimes the only way a company can afford a pension plan. As will be demonstrated later, the cost of future service credit under a modest pension plan is within the financial means of most companies. Trouble comes when a company has to pay for past service credit. And although it is not called by the name "past service credit," this problem exists even in the so-called "flat benefit" plans that provide for a pension of $100 a month. If a worker is almost 65, you may not be able

to put up the roughly $15,000 necessary for his $100-a-month pension, whereas you could build up this amount for him over a period of 20, 30, or 40 years. It's rough on the older workers, but one way out is to exclude from coverage all workers over 55 or 60 at the time a plan is set up. That would give you a minimum of 5 or 10 years to build up the reserve for each man's pension. (Alternate solutions are increased retirement age or reduced benefits. See Chapters 4 and 7.)

Another fairly common eligibility requirement in plans that were set up in the late 1930's and early 1940's was that the worker must be earning more than a certain number of dollars per year. This figure was usually set at $3,000 a year. It seems probable that the reasoning behind such plans was that Social Security provided a pension based on the first $3,000 of income (or on all income for a man earning less than $3,000 per year). The recognized inadequacy of Social Security pensions within the framework of the postwar price structure has resulted in relatively few of the new plans establishing this requirement. (However, recognition is frequently given to the existence of Social Security through the establishment of a different scale of benefits on that portion of income which is included in Social Security and that portion which is in excess of the Social Securty limit. See Chapters 7 and 14.)

A requirement that participants be males is not at all uncommon. Two factors are involved here. First, women have a longer life expectancy than do men, so equivalent benefits are considerably more expensive. Second, a large proportion of women workers constitute "floaters" who take on jobs only when they need additional income for their family, and generally do not represent the breadwinner who must be relied upon as the principal source of support for the family unit in its old age. There seems to be little chance of a federal "equal rights for women" law in the near future, but if we do get one

(or if your state has one), watch out for its effect on pension plan coverage.

In some cases only salaried workers, as opposed to wage earners, are permitted to participate; in other cases eligibility is limited to employees covered or not covered by a collective bargaining agreement.

NEGOTIATOR'S REVIEW

With a single exception unions will probably make few eligibility demands as such. The exception is this: Unions will want *all* union members to be eligible, and may well want to limit eligibility to union members only.

Beyond that, most unions are demanding that an employee with 25 years of service at normal retirement date be granted a maximum pension. This, in effect, is an eligibility demand. You would be meeting it if you established an eligibility age limit of 40 years for participation in the plan. This is higher than the limit generally adopted. However, if the plan you propose will provide the worker with what the union considers to be an adequate pension after 25 years, there should be no difficulty in getting the union to agree to an additional amount of pension in return for additional years of service.

The demand that pension eligibility be limited to members in good standing may create some tremendous headaches in the future if your present union is succeeded by a rival. Consider, for example, the position of an employer having a contract which limited eligibility to members of the United Electrical Workers (formerly UE-CIO). Just where do the employees stand if the newly formed International Union of Electrical Workers wins a bargaining election?

The problem would appear particularly difficult in the case of an employer dealing with several unions. The occasional shifts of personnel from one bargaining unit to another would

provide a never-ending succession of problems in determining the benefits and reserves to be credited to a worker who made such a move.

Another question almost certain to come up is this: What do you do in the case of workers promoted from the ranks to supervisory positions? You should be careful to cover this point in phrasing a contract provision, or you may find yourself in the position of asking a worker to forfeit his pension rights in order to accept the promotion to the supervisory rank.

A good solution would appear to be to define the eligible workers in such a way as to include the bargaining unit, without specific reference to the bargaining unit.

Including all the workers in the bargaining unit would present some problems, too. Certainly you won't want to include temporary employees or transient workers, even though they may properly be members of the bargaining unit. If the union is dealing with you as a single employer (rather than as part of an employer association, area-wide or industry-wide group), you probably won't have much trouble on these points. Where you will have trouble is determining the eligibility of workers who have been laid off, or are on leave of absence, or have been temporarily disabled at the time the plan is started. You will want to be fair in not closing the door on long-service employees who are temporarily off the payroll, but you certainly don't want to leave the door so wide open that employees who have long since ceased to be part of your organization can lay claim to past service credit.

One of the reasons you want to be particularly careful in phrasing this part of a pension contract is that even though *you* may not consider an employee eligible, the employee can go to court and enforce his pension rights if, in the court's opinion, he is within the eligibility requirements.

When the problem of initial eligibility is settled, there is the problem of determining the conditions for *continued* eligibility. You might think there would be no question about the continued eligibility of the worker permanently severed from the payroll, but the United Auto Workers do not accept even this. Point No. 3 in the UAW's program for old age protection is: "Provision must be made for protecting the rights of workers in case of death or permanent severence from the payroll prior to retirement age." Part of the problem involved here is that of vesting. (This will be discussed more completely in Chapter 5.) However, there is no reason to expect an employer to continue his liability for retirement benefits to a worker who is removed from the payroll "for cause." It will afford a reasonable degree of protection to the employer to specify that an employee sacrifices his eligibility by discharge for cause, continued absence without leave, or infraction of the shop rules. Local circumstances may dictate the inclusion of still other items in such a provision.

Until recently, most pension plans were silent on the subject of how layoffs might affect eligibility. With rank-and-file workers being brought into pension plans under union contracts, careful consideration should be given to whether workers on layoff when the plan is started should be eligible. And be sure to specify under what conditions, if any, a man laid off during the operation of the plan will forfeit his eligibility.

Most plans will provide that once an employee has been retired, the continuance of his pension is beyond the control of the company. You will probably agree that it should not be possible for the employer to fire a man once he has been pensioned. But there is at least one string that you should tie to the employee maintaining continued eligibility even after retirement: Suppose your pensioned ex-employee applies for

State Unemployment Insurance benefits. Unless your contract is very carefully drafted, he will be able to make and support the statement that he is no longer gainfully employed. Yet you, as an employer, may be charged with an increase in unemployment experience and find yourself faced with higher taxes for unemployment insurance. It seems only reasonable that you should be entitled to protection against having to pay not only a pension but also unemployment benefits for a single worker.

Here is a matter concerning Social Security that you want to cover in your contract provisions on continued eligibility after employment. Say your plan provides a retired worker with a total pension of $100 a month, including Social Security benefits. For the sake of example, let's assume the worker would be entitled to $35 a month from Social Security. Your pension liability, therefore, would be $65 per month. But if the worker goes out and takes another job which would pay him more than $15 a month, he would lose his Social Security benefit. Unless your contract is carefully drafted, you might find yourself in the position of being required to pay him an additional $35 a month in pension. Probably the best way to solve this one is to specify in the contract that the monthly pension which you guarantee includes either the so-called "primary benefit" under Social Security or the amount actually being received under Social Security, whichever is greater.

REFERENCE REVIEW

A study of "289 Retirement Plans" made by the Bankers Trust Company of New York City in 1948 provides some interesting comparisons of eligibility requirements of pension plans amended or adopted in 1943 through 1947. The plans included in the survey cover a minimum of 150 participants, and several cover as many as 50,000 participants. While not completely representative, the plans vary over a wide range in terms

of scale of benefits provided and method of financing. Table 3-1 indicates the rather marked trend toward covering all employees in pension plans.

TABLE 3-1*

Coverage	*1943–44–45 plans*	*1946–47 new plans*
All employees	63.4%	79.6%
All salaried employees	18.6	13.7
Employees earning over $3,000 per year	5.5	1.1
Salaried employees earning over $3,000 per year	12.5	5.6
	100.0%	100.0%

* Bankers Trust Company.

Table 3-2 from the same study shows how eligibility requirements vary by both age and service.

TABLE 3-2*

Service requirements	*Number of plans by age requirements*			
	No age	*Age 25 and under*	*Age 30*	*Age 35 †*
None	37	2	4	1
1 year	34	9	18	8
2 years	7	2	10	4
3 years	17	7	10	5
4 years	1	..	1	..
5 years	42	8	37	24
Special	..	..	1	..
Total	138	28	81	42

* Bankers Trust Company.

† Includes one plan having an eligibility requirement of age 40.

In commenting on this tabulation, Bankers Trust Company notes that "the plans having no eligibility requirements usually require a 10, 15, 20, or 25 year period of service to qualify for a pension." It is also pointed out that "a study of the 1946–1947 plans in relation to the 1943–44–45 plans shows a slight tendency towards less restrictive eligibility requirements."

ELIGIBILITY CHECK LIST

Initial Eligibility

1. What are the lower and upper age limits to be?
2. Do you want to require a certain number of years of service?
3. Do you want to include only certain income groups? If so, be sure to define income to be counted.
4. What are the differences in requirements for men and women?
5. Do you want to limit eligibility to certain types of employees? If so, include careful definition of those types.
6. Shall the plan be limited to union members? (Watch out for legal restrictions here.)
7. What provision will you make for employees on leave, disabled, or laid off when plan is started?
8. Shall participation be automatic when eligibility requirements have been met, or must the employee take some action? (Important primarily in contributory plans.)
9. What provision will you make for employees of companies merged or consolidated with yours before the plan is set up? After?

Continuing Eligibility

1. Have you defined the effect of leaves, layoffs, disability, absence for union duties, and participation in work stop-

pages (authorized and unauthorized) on "continuous service" or "creditable service"? (You can't refuse to count time lost by an employee striking against an "unfair labor practice.")

2. Have you defined "permanent severance" to include discharge for cause?

Eligibility for Benefits

1. What options are provided the company and the employee as to time or age of retirement?
2. Are you protected against misstatements of age?
3. Have you a clear-cut definition of how to determine years of service with the company? (Watch out for the relation of this clause to your seniority clause.)
4. Have you a clear-cut definition of how to determine years of "participating service"?
5. Does the contract clearly exclude employees who have already retired?
6. What effect will applying for unemployment compensation have on an employee's right to receive his pension payments?
7. What protection do you have against an employee losing his Social Security income by taking another covered job after retirement?

SAMPLE NEGOTIATED CLAUSES ON ELIGIBILITY

A. Any member of the United Mine Workers of America who on or after May 29, 1946, has completed 20 years' service in the Coal Industry, and is otherwise qualified, shall be eligible for a pension.

B. Proof of Service

1. Definitions
    a. A year is twelve (12) calendar months.

b. A quarter shall be a period of three calendar months ending on March 31, June 30, September 30, or December 31.

c. A year of service is one in which applicant:

(1) Worked in a job classified in any National Coal Wage Agreement for two (2) quarters for an employer in the Coal Industry and earned a minimum of fifty ($50) dollars in wages in each quarter.

* * *

. . . any employee who has become eligible to the Plan and who is transferred to other duties with the Company which do not require him to be a member of the [union] may, with the consent of the Company, withdraw from this Plan for the purpose of participating in such other plan as may be provided for employees not members of the [union], and in the event of such withdrawal there shall be transferred to such other plan on behalf of such employee an amount equal to his total contributions to the Plan, without interest, less any amount which shall have been paid to such employee under the provisions of the Plan.

* * *

An Employee shall be deemed to have been continuously employed:

a. During any calendar year, if such Employee was employed in the Industry in at least 40 weeks during such calendar year;

OR

If such Employee was employed during each calendar year to the extent that employment in the Industry was available to him; and/or

b. If any break or breaks in employment (regardless of duration) were caused by total disability, resulting from bodily injury or disease, followed by resumption of employment in the Industry; and/or

c. If any break in employment occurred after January 1, 1945, and after the attainment of age sixty (60) years, was continued until the date of application and was caused by total disability resulting from bodily injury or disease; and/or

d. If there was not more than one break in employment of not more than 24 months duration; and/or

e. If any break or breaks in employment were caused by service in the Armed Forces of the United States;

* * *

The period of continuous service shall be counted from the date of last employment with the Company, or its predecessors.

* * *

In computing service, it shall be reckoned from the date since which the person has been continuously in the service, to the date when retired, eliminating in the final result any fractional part of a month.

Leave of absence duly granted, suspension or dismissal followed by reinstatement within six months shall not be considered a break in the continuity of service.

* * *

2. Evidence
   a. Proof of service may be accomplished in any of the following ways:

(1) Certifications by a Local Union, or by Local Unions, or by Districts of the United Mine Workers of America that an applicant served in the Coal Industry shall be deemed to be satisfactory proof of service for the period or periods covered by such certifications.

* * *

(4) Was in an employment relation with an employer in the Coal Industry but did not perform active service for two (2) quarters due to personal accident, illness, furlough or leave of absence.

* * *

New employees, as a condition of continued employment, must join the Pension Trust when they become eligible therefor.

A joint Union and Company Committee shall be formed to explain the benefits of the Pension Trust to present employees who are not now participants of said Trust, with a view of persuading said employees to become participants. To this joint committee shall be referred questions relative to either new or old employees who desire to withdraw from said Trust.

* * *

All employees as defined above who are members of the [union] on the effective date hereof, and who hereafter become members, shall come under this Plan and continue as contributing members so long as they are in the employ of the Company, providing their date of appointment was prior to age fifty-five (55) and they have completed two (2) years of continuous service. . . .

Any applicant for a pension who knowingly and willingly falsifies any records or makes any false misrepresentations or statements in order to secure a pension from the United Mine Workers of America Welfare and Retirement Fund shall be barred from receiving any benefits from the Welfare Fund.

Membership in the plan is optional but all eligible employees who desire to benefit by the minimum retirement provisions of paragraph . . , Section . . , must become members of the plan when first eligible.

* * *

No person, however, over the age of forty-five, who shall hereafter be taken into the service shall be eligible to the payment of a pension.

* * *

If a member quits, is discharged, or is absent from active service with the Company for any reason (except military service as provided above) for a period of more than twenty-four months, and later re-enters the service of the Company, his service prior to re-entry shall not be counted as continuous service.

CHAPTER 4

RETIREMENT AGE

MANAGEMENT REVIEW

Retirement age is basically a definition of *when* an employee starts to get his pension. General practice has been to set a uniform, arbitrary retirement age. Sixty-five is the most widely accepted "normal retirement age" for males; 60 or 65 for females.

Some unions are today demanding a lower retirement age (the United Auto Workers asks for age 60; the United Mine Workers asked for 60, settled for 62). Other unions are demanding that the employee be given an absolute right to delay his retirement, on individual option, even beyond 65 (proposal of the American Newspaper Guild, formulated by Murray Latimer, the CIO's top pension consultant).

How do variations in retirement age affect pension costs? The annual cost of a pension, other things being equal, is determined by the life expectancy of the pensioner at the time he starts receiving benefits, and the number of years of working life (before retirement) during which the pension reserve can be built up.

It follows that the younger a person is at retirement, the more dollars he will receive in benefits, and the fewer years of work in which to accumulate the reserve.

Example: John will have 30 years of service when he is 65. Statistically, he can expect to live another 14 or 15

years. If his pension is to be $1,000 a year, you will have had 30 years in which to build up the reserve from which payments of about $15,000 will have to be made. Suppose, instead, you let John retire at age 60 on an annual pension of $1,000. He will have only 25 years of service. And he can expect to live about 19 years. You will have only 25 years to build up a reserve from which payments of about $19,000 must be made. Forgetting for a moment the factor of interest, your annual costs for these two schemes and for this particular worker would be in the ratio of 3 to 2. The compounding of interest would make the disparity even greater.

Most pension experts estimate that the cost of a pension plan with retirement age 60 will cost 50 per cent more than the same plan with retirement age 65.

Example: A small manufacturing company with many long-service employees found that the annual cost for the first 10 years would be increased 90 per cent by lowering the retirement age from 65 to 60. A large commercial institution with many young workers (and a rather high turnover) estimated the increase in cost at between 35 and 40 per cent.

One other cost factor to keep in mind: Females have a longer life expectancy than do males of the same age. When you consider both this and the (relatively) sedentary nature of the work most females do, it is hard to rationalize a lower retirement age for women than for men.

Determining Normal Retirement Age

To fix the retirement age for your pension contract, you can adopt some arbitrary figure such as 65 and then start catalogu-

ing exceptions. Or you can attempt to determine the normal retirement age on the basis of a survey of worker efficiency, life expectancy of various classes of workers, or workers' desires. (See "Reference Review" at the end of this chapter for a discussion of such determinations.) And then you will still have to provide for exceptions.

Let's say you select 65 as normal retirement age. You will face the problem of providing for workers who have many years of service and are now nearing 65. Few years will be avaliable to you in which to build up a reserve for their pensions. And maybe some workers are already over 65. The financial strain of pensioning such workers at normal retirement age might be more than the company could stand.

A solution already mentioned in the discussion of eligibility was to eliminate such workers from the pension plan entirely. That's rough on the workers, and the minimum concession you could be expected to make would be to permit such workers to continue on the job indefinitely. In effect, you would be paying them a pension by doing this.

A second solution is to set up a sliding scale of retirement ages for workers over 50 or 55 or 60 at the time the plan goes into effect. A common arrangement is to retire immediately all workers 70 or more, and those between 60 and 70 in two-years groups at the end of each year. This would get retirements on a "current" schedule at the end of 5 years. Three typical schedules for delayed retirement are shown in Table 4-1.

Many such schedules are possible. These three are cited merely to show how a schedule is built.

Just as early retirement increases costs two ways, so later retirement for older workers when the plan is set up will cut costs two ways: You will pay for fewer years, and you will have more years to build the reserve.

The third solution to the problem of pensions for workers who have reached an advanced age when the plan is set up is to provide benefits at a reduced scale.

TABLE 4-1

Current after 5 years		*Current after 10 years*		*Current after 10 years*	
Actual age	*Retirement age*	*Actual age*	*Retirement age*	*Actual age*	*Retirement age*
Over 69	Immediate	Over 69	Immediate	Over 74	Immediate
68–69	70	66–69	70	73–74	75
66–67	69	62–65	69	71–72	74
64–65	68	58–61	68	69–70	73
62–63	67	54–57	67	67–68	72
60–61	66	50–53	66	65–66	71
Under 60	65	Under 50	65	63–64	70
				61–62	69
				59–60	68
				57–58	67
				55–56	66
				Under 55	65

Compulsory Retirement

One of the means by which management recovers the cost of a pension plan is that it provides a natural and relatively painless termination of employment for workers whose efficiency has fallen below a satisfactory level. But if workers are permitted to exercise an option and stay on the job beyond normal retirement age, this advantage is lost to the employer.

There is a "con" side to this argument, however: Every year that retirement is delayed, the employer's pension liability for the particular worker is reduced (because life expectancy is

reduced). Certainly the pros and cons cannot be weighed in generalities; each case must be decided on its individual merits.

The most common solution is to permit an employee to delay his retirement beyond 65 only with the company's permission (and in some cases, only at the company's *request*). Even in such circumstances, a limit is usually set beyond which the employee may not remain at work.

One thing is certain: You can't afford to make exceptions on an individual basis. Delayed retirements (and all other deviations from the "normal" plan) must be provided for in advance. Any other procedure may result in the setting of "precedents" that could wreck the carefully calculated actuarial base of your pension plan. And one "exception" is likely to lead to almost irresistible union pressure for more exceptions of the same or different character.

Another element of the retirement age problem is this: Some workers want to retire before age 65. Many companies solve this problem by making it an optional matter with the employee, but with the pension payments reduced to an "actuarial equivalent of the normal retirement annuity." The phrase is a jawbreaker, but it is difficult to find seven other words that will say just the same thing. Perhaps an example is the easiest way to explain what it means:

> *Example:* A worker is 60 years old, has 30 years' service, and wants to retire. If he had 30 years' service at age 65, his pension might be $150 a month. The cost of such a pension at age 65, and to begin at age 65, is about $23,000. If that amount were used to buy a pension to begin at age 60, the monthly payments would be in the neighborhood of $110. So the worker would have his choice of retiring at 60 on $110 a month or waiting until

he is 65 and retiring on $150 a month, plus anything more he might get by the addition of another 5 years of service.

Where early retirement is permitted, it is customary to place a limitation on the number of years by which the normal retirement age may be anticipated. Sometimes a period is fixed in which the employee may retire at his own option, and in some cases an additional period is provided during which the employee may retire with the company's consent.

Example: One of the large utility companies provides for compulsory retirement at 65. The employee is permitted to retire after age 60 at his own option. Between the ages 55 and 60, the employee may retire with company permission. Likewise, the pension provides that the employer may, unilaterally, retire the employee after age 60 if it wishes to do so and may request the employee to retire any time after age 55. However, between 55 and 60 the employee may not be forced to retire unless he wishes to do so.

An interesting approach to the whole problem of retirement age is found in the application of the so-called "80 rule." Under this rule, an employee's normal retirement age is established as that age at which his years of service plus actual age in calendar years is equal to 80. One factor should be noted in connection with the operation of the "80 rule": The service requirement for eligibility is generally very short—usually one year or less. Table 4-2 indicates how the rule works out in practice.

While it might appear that the "80 rule" would bring about very high pension costs, this is not usually the case in practice. It will be noted that early retirement ages were provided for employees who started with the company while still rather

young. This is traditionally the time of greatest turnover, and this single factor will go a long way toward offsetting the apparently greater cost of this type of plan. If the cost problem is a major one, and you still want to use the "80 rule," one way out is to set an eligibility age of, say, 30 years. An age limit any

TABLE 4-2

RETIREMENT AGE UNDER THE "80 RULE"

Age at entry	*Years of service*	*Retirement age*
20	30	50
25	27½	52½
30	25	55
35	22½	57½
40	20	60
45	17½	62½
50	15	65
55	12½	67½
60	10	70

higher than this would defeat the purpose for which the plan was designed. One of the big advantages cited by proponents of the "80 rule" is that it gives a company the opportunity to hire "key men" of relatively advanced age and to get the benefit of their services for a reasonable period of time, while still providing these men with the attraction of an adequate pension.

NEGOTIATOR'S REVIEW

Union demands will generally ask for a normal retirement age of either 60 or 65. Because Social Security has given more or less "legal backing" to 65 you probably won't have too much trouble in getting your union to accept that age. Your big fight is likely to center around the point of whether or not the normal retirement age shall be a compulsory retirement age.

Despite the demands of some unions for a normal retirement age of 60, the negotiating committee will generally recognize the fact that many workers at 60 or even at 65 are hale and hearty and will resent the prospect of being forced into retirement on an income which, in the best of circumstances, will represent a reduction from the pay they would receive by continuing to work. The union will give you a lot of very reasonable sounding arguments why a worker should be permitted to continue on his job after normal retirement age if he wants to. To avoid defeating the purpose (from the company's point of view) of a pension plan, you will want to see to it that the company is given adequate control of delayed retirements to prevent inefficient workers from staying on the job while the really efficient men take their pension and go elsewhere to get full-time work.

Be sure that the final control over delayed retirement is exercised by the company *alone*. Many of the pension plans being demanded by unions today would be administered by a board of trustees composed of both union and management representatives. If a decision such as that of whether or not to permit a man to continue work after normal retirement age were to be placed in the hands of such a joint committee, pressures applied through the union would almost invariably result in the man being allowed to continue work.

The company will also want to be able to exercise some degree of control over early retirement. But because of the tremendous reduction in pension benefits when the employee retires on an "actuarially reduced pension," there will probably not be much tendency on the part of employees to abuse this early retirement privilege.

It may seem like almost too small a detail to bother about, but be sure your contract specifies how you determine the day on which an employee reaches "normal retirement age." Some

state laws provide that a man becomes 65 years of age for all legal purposes on the first minute of the day *preceding* the 65th anniversary of his birth date. One of the ways of solving this problem is to stipulate in your contract that employees (like horses) have a birthday just once a year. You can choose any given day of the year you like. For example, you might provide that for the purposes of the pension contract any employee born during a given calendar year shall be considered to have been born on July 1 of that particular year.

An arbitrator has ruled in the case of the General Electric Company that the company was entitled to retire a worker who was absent on paid sick leave at the time he reached his normal retirement age. His pension was less than his sick pay, so the union challenged it. The arbitrator's ruling was favorable to the company, but there is no assurance that arbitrators would rule the same way in future cases.

Arbitrators hold that an employee on layoff when his vacation becomes due is none the less entitled to his vacation pay. The chances are that the same reasoning would be used on pensions. If your company wants to adopt the attitude that a worker is entitled to his vacation pay under these circumstances, it won't cost you anything to spell this out in the contract. If you want to avoid being surprised with a sudden demand for pay in such circumstances, be sure to specify that no vacation allowance will be made after the employee has reached his normal retirement date.

A very costly problem is presented when an employee comes up to you and says, in effect, "You may have thought I was only 63, but I'm really 65. Where is my pension?" So be sure to include in the contract a provision which will limit your liability as an employer either to the employee's actual age, or to the misrepresented age (which you accepted in good faith), whichever is less.

REFERENCE REVIEW

Determining Retirement Age

Many people make the assumption that a company is paying the cost of the pension whether there is a formal plan or not. The reasoning is this: As an employee's age advances, his efficiency begins to decline. Finally a point is reached at which it would be possible to get another worker to do this man's job for less money or to get another worker to do a better job for the same money. The further assumption is made that proper retirement age is determined by equalizing the cost of the pension and the cost of maintaining this inefficient worker on the payroll.

Obviously it would be impractical to try to make such a determination for each worker in the company. What is done, therefore, is to try to make such a determination either for all workers in the company or for all workers in each of several groups which you have reason to believe will be governed by relatively the same factors of efficiency with advancing age and life expectancy.

> *Example:* One company is now engaged in a preliminary survey to determine by such a method what might be the proper retirement age for its group of production workers. This company uses a piecework system, so the determination is fairly easy. What it has found is this: Most workers exhibit an increased efficiency up to approximately age 59. Somewhere between the ages of 59 and 61, there will be a gradual downturn in the efficiency of a worker, and efficiency will continue to reduce at a more or less uniform pace up to approximately age 67. At age 67, this company's experience shows a very sharp downturn in efficiency. By the time

that workers reached the age of 67 the efficiency of the group as a whole was down just about to the point that the company considered barely above the "not-satisfactory" level. Workers in the 68-year-old group showed an average efficiency considerably below the "not-satisfactory" level. If this company were to base its normal retirement age upon these studies, that age would undoubtedly be 67 for production workers. However, the company also recognizes the danger of setting a retirement age for one group of workers in this manner without knowing the full facts of how similar determinations would turn out for other types of workers in the company. The reaction of the union in this case is also an unknown quantity.

In the example just described the company had a piecework system. If you do not have a piecework system but would like to use this type of determination, you might try this somewhat less scientific approach to it: Ask your foremen and supervisors to rate the efficiency of all production workers as "above satisfactory," "satisfactory," and "less than satisfactory." This is one case where communication with your supervisory force will cause the results to be badly prejudiced. You must not tell the foremen and supervisors why this test is being made. And by all means, do not indicate at any point on the questionnaire the age of the particular worker. When the questionnaires are returned to you, it will be necessary to enter on each one the age of the particular worker. It will then be possible to classify the various returns according to age of the worker. You will then be able to get a general, though not exact, idea of whether or not the efficiency and quality level of the workers at a given age is satisfactory or above or below that mark. If the result produces

a fairly uniform trend line, with a single sharp break at some point, you would probably be safe in relying upon its validity. If a tremendous scattering of points is produced, it would probably mean that the method was too inexact to have application to your situation.

Mortality Studies

Some companies have made an attempt to classify their workers into various groups for which special mortality studies have been made at one time or another. (If your company is large enough, it may be possible to base estimates on your own experience.) For example, it is possible to get estimates of mortality for various groups such as miners, traveling salesmen, train dispatchers, and so on. Depending upon the degree of accuracy which your actuary tells you it is reasonable to rely on, you can get estimates of mortality for a great many different types of worker classifications.

Once armed with this information, some companies figure this way: If, on the average, a general retirement age 65 is reasonable, a retirement age for individual groups which will produce an average life expectancy after retirement of 15 years is also reasonable for these groups. (Approximately 15 years is the life expectancy of the average male at age 65.) The results of such a situation, obviously, would be to have a great many different retirement ages within your organization. While this may complicate the administration of the plan somewhat, it is not impossible so long as the workers in the plan are thoroughly and completely sold on the idea that the several retirement ages so determined are fair and equitable to all concerned. If the workers ever got the idea that there was any discrimination in this matter of varying retirement ages, the plan could well backfire and have an unfortunate effect on the employer.

Workers' Desire

One factor which may not have been given its proper emphasis in connection with the determination of retirement age is what the worker thinks about it. A survey of the opinions of factory workers reported in the October, 1949, issue of *Factory Management and Maintenance Magazine* asked this question:

> *Some companies require workers to retire or quit work when they reach a certain age. In general do you agree with such a policy?* (A complete tabulation of the answers is shown in Table 4-3.)

TABLE 4-3

BY AGE OF RESPONDENT

Answer	*All workers*	*20–34 years*	*35–54 years*	*55 and over*
Agree	34%	39%	32%	27%
Agree—if there is a pension	28	29	28	27
Agree—with other qualification	5	4	5	4
Disagree	31	26	32	41
Don't know	2	2	3	1

Despite the fact that workers of advanced years were less enthusiastic about a policy of compulsory retirement, it is none the less significant that if we take all these workers 55 years of age or over who agreed, either with or without qualification, they outweigh those in the same age group who disagreed by almost two to one.

Somewhat contrary to popular conception were the findings of the second question asked in the same survey:

At what age should workers be required to retire? (A complete tabulation of the answers is shown in Table 4-4.)

TABLE 4-4

BY AGE OF RESPONDENT

Answer	*All workers*	*20–34 years*	*35–54 years*	*55 and over*
40–50 years	5%	6%	4%	6%
55 years	12	13	13	8
60 years	41	41	40	43
65 years	39	38	40	38
70–85 years	3	2	3	5

There was an almost complete absence of the expected inclination on the part of the older workers to want to delay a retirement beyond the traditional 65.

A survey of a rather limited sample of workers was made by the United Steelworkers Union (CIO). According to this survey, both the average and median preferred retirement age was 65.

The Bankers Trust Company of New York City, in its study of "289 Retirement Plans," reports that 252 of the 289 plans (87.3 per cent) provide a normal retirement age of 65 for both men and women. An additional 26 plans provide normal retirement age of 65 for men and 60 for women. The remaining 11 plans provide various combinations for men and women with retirement for men ranging from age 60 to age 70 and for women from age 55 to age 70. This same study provides a table (Table 4-5) showing early retirement provisions in the 289 plans. In an explanation accompanying the table, attention is called to the fact that "a limited group of the plans included in the survey have more than one set of early retirement requirements, and in

TABLE 4-5*

Early retirement provisions	*Number of plans*		*Per cent of plans*
1. *Permitted only with company's consent*			
a. after employee attains an age	90		
b. after he completes a period of service	2		
c. after he attains an age and completes a period of service	47		
d. anytime	18	157	54.3
2. *Permitted at employee's election*			
a. after he attains an age	37		
b. after he completes a period of service	2		
c. after he attains an age and completes a period of service	45	84	29.1
3. *Permitted only on disability or hardship*		35	12.1
4. *No provision*		2	0.7
5. *Information not complete*		11	3.8
Total		289	100.0

* Bankers Trust Company.

these cases [Bankers Trust Company] have used discretion in placing the plan in one category or another."

RETIREMENT AGE CHECK LIST

Normal Retirement Age

1. Have you specified the date as well as the year?

2. Is the company protected against misstatements of age by employees?
3. What provision have you made for employees on sick leave, leave of absence, strike, or layoff on normal retirement date?
4. Have you settled the problem of vacations for the last year of service?
5. Does the contract state what steps the employee must take to start receiving his pension?

Delayed Retirement

1. Shall the employee have an option?
2. How is company approval to be decided?
3. Have you specified that company contributions cease on normal retirement date?
4. Shall normal retirement income be subject to an "actuarial increase" when retirement is delayed?
5. Have you included a schedule of "delayed retirement" for employees over 55 or 60 years of age when the plan is started?

Early Retirement

1. Shall the employee have an option?
2. Shall the company be able to force early retirement regardless of the employee's wishes?
3. Have you specified the schedule by which normal retirement income will be reduced in the event of early retirement?

SAMPLE NEGOTIATED CLAUSES ON RETIREMENT AGE

The Union hereby agrees that the Company shall have the exclusive right to retire without pension benefits any

and all employees reaching their sixty-fifth (65th) birthday who are not members of the pension plan.

The Union hereby agrees that the Company shall have the exclusive right to retire with pension benefits any and all employees reaching their sixty-fifth (65th) birthday who are members of the pension plan.

The normal retirement date for each employee hired after the execution date of this agreement shall be the first day of the month following his sixty-fifth (65th) birthday. In the event that the Company agrees to an extension of time beyond the retirement age, such extension will be made for a specified period of time and for a period not to exceed one year.

There shall be no discrimination by Company against any employee because of Union activity, race, color, creed, sex, age or nationality. Except that this provision does not restrict the right of the Company to retire employees at the age of sixty-five (65) under the Retirement Plan existing as of the date of this Agreement.

* * *

Employees who were the following ages on May 1, 1946 will be retired on the following dates:

70 years or over	October 1, 1946
69 years	January 1, 1947
68 years	April 1, 1947
67 years	July 1, 1947
66 years	October 1, 1947
65 years	January 1, 1948

Employees becoming 65 between May 2, 1946 and March 31, 1948 will be retired under the plan April 1, 1948.

Of course, where retirement is deemed necessary by

the Company because of health or other reasons, an employee 65 or over will be pensioned when in the opinion of the Company it is necessary and the above schedule will not be followed.

Any employee who was 65 on May 1, 1946, or who becomes 65 thereafter, will be retired immediately if he so requests.

After April 1, 1948 employees will be retired on the first day of the month following their 65th birthday.

* * *

The early retirement pension shall be payable monthly during the life of the retired employee, and its annual amount shall be found by first computing a normal retirement pension under the terms of sub-section 2 of this section, and then multiplying that by the appropriate percentage taken from the following table:

Males		*Females*	
Age at retirement	*Percentages*	*Age at retirement*	*Percentages*
60	100	50	100
59	91	49	93
58	83	48	87
57	75	47	81
56	69	46	75
55	63	45	70
54	58	44	66
53	54	43	62
52	50	42	58
51	46	41	55
50	43	40	51

* * *

As provided for in the Employer's retirement policy and the retirement income plan for the employees of the Employer, any employee may be retired by the Employer any time after the first of the month nearest his sixty-fifth birthday.

* * *

Employees pensioned under the Pension Plan of the Company shall not be considered discharged within the meaning of this Article, and the right to terminate or to retain in its service employees who have reached a pensionable age rests solely with the Company.

* * *

The Employer will consent to a participant represented by the Union remaining in active service after his normal retirement date unless he is not qualified, physically or mentally able, or willing to do the work to which he is assigned. Any retirement during said term without the consent of the participant will be subject to the grievance procedure outlined in Article XVI.

* * *

The plan however permits the Company to retire employees before 65 if in the opinion of the Company it is in the Company's interest to do so. The Company is the sole judge. Such cases, if any, will be very few and we contemplate that such cases will be almost all cases of total and permanent disability. An employee so retired if under 55 years of age must have had at least 20 years of continuous service and if between 55 and 65 years of age must have had at least 15 years of continuous service. Also in figuring the base percentage such

an employee shall be credited with actual continuous years of service at 1% per year if he is between 60 and 65 years of age. If he is under 60 there will be deducted from the base percentage as so figured ½ of 1% for each year that the employee, upon his retirement date, is less than 60 years of age.

Chapter 5

VESTED RIGHTS FOR EMPLOYEES

MANAGEMENT REVIEW

When an employee becomes "vested" under a pension plan, it means that he acquires a permanent right to some or all of of the money set aside to pay the cost of his pension. Under a fully funded plan, the employee is automatically vested when he actually retires. He cannot later be fired or otherwise have his pension reduced or taken away from him. A form of vesting is also possible under a pay-as-you-go plan, but from the employee's point of view, such vesting is illusory because he has no assurance that the money will be available (other than as a bookkeeping entry) when he wants to exercise his "vested rights."

In general, an employee is permitted to withdraw his "vested interest" in only three circumstances: On permanent severance of employment; on withdrawal from participation in a voluntary plan; and at the time of his death, in which case the employee's vested interest goes to his widow or heirs. The first of these three is by all odds the most common in existing plans. It should be noted that the third frequently provides a duplication of death benefits already made available to employees' families through a group life insurance plan.

A very small number of pension plans provide for employee vesting in a fourth circumstance: When an employee is laid off for lack of work even though it may not be known

at the time if the layoff is permanent. For when an employee is vested under these circumstances, it means that the employee has a small accumulation of money to fall back on at a time when he is likely to need it most.

The most important point to keep in mind in connection with vesting is that it increases the cost of a pension plan rather sharply.

Example: Assume you have accumulated $1,000 for the pension account of a certain employee. He dies at the age of 45. If the $1,000 is not vested with the employee, it can be used to pay the cost of the pension for workers who remain, thereby reducing your total pension cost in the year this employee died by $1,000. But if the worker is fully vested, the $1,000 must be paid to his widow or his other heirs.

According to one mortality table, out of every 100 workers who reach the age of 45, only about 70 will live to retire at 65. So if you set up a plan under which workers will be vested at age 45, you have to figure that approximately 30 per cent of your total contribution to workers of that age will be used solely to pay the death benefits of those who died before retirement. If the vesting provision also covers voluntary separations, voluntary withdrawals from the pension plan, and layoffs, the cost will obviously be much greater and can be determined only on the basis of your own experience.

It is not necessary to vest 100 per cent of your contribution. Any portion of it can be vested. It is not uncommon for employees to be vested only after reaching a certain age, or only after a specified number of years of participation in the plan. Sometimes, the amount of the employer's contribution that is vested with the employee will increase with the number of years

of service. For example, 5 per cent of the employer's contribution may be vested with the employee after 1 year, 10 per cent after 2 years, and so on until 100 per cent is vested after 20 years. In some contributory plans, the company vests an amount equal to the employee's contributions.

NEGOTIATOR'S REVIEW

Unions will generally demand a liberal vesting provision. But the union's pension experts will be as aware as you are of the fact that vesting will reduce the size of the retirement benefits it is possible to pay out for each dollar of contribution. Being realists, the union negotiators know that $100 a month with no vesting will sound like a lot more to the membership than perhaps $60 a month with full, immediate vesting.

Experience to date indicates that the union will be most unlikely to give you any trouble about vesting on a noncontributory plan. If your union agrees to a contributory plan, the union will certainly insist on full and immediate vesting of the employees' contributions and may well make an issue of vesting at least part of the employer's contributions. As a practical matter, and perhaps as a legal matter, you will certainly want to provide for full vesting of the employee's contribution, probably with interest. If the plan you finally set up is to be carried through an insurance company, it will be perfectly proper to deduct from each employee's vested interest any "surrender charge" you have to pay the insurance company in order to get the premiums returned. This will generally run from 6 to 8 per cent of the premiums paid. Some companies figure that, on the average, these surrender charges will be offset by interest earned on premiums, so they vest the employee to the full extent of his contributions but without interest. The reasoning in some of these cases has been that it is simply too difficult to explain surrender charges

to the employee who may think the charges are simply a device for cheating him out of some of his contribution. A "compromise" solution used in a few cases is to vest the employee's contribution less surrender charge and without interest in the event of voluntary separation, and vest the contribution plus interest and without deduction for surrender charge in the event of separation through no fault of the employee.

If, as a matter of policy, you decide to vest all or part of your contribution, you will have to specify carefully the circumstances under which the employee will be able to claim his vested right and the manner in which it shall be paid to him.

The form in which vested rights are made available to the employees can have a very marked effect on the number of employees who exercise these rights. If a large, lump-sum, cash payment is made available to the employee, you may be creating a real incentive for the employee to withdraw from the plan or quit his job entirely in order to lay hands on the money. It is worth noting that in many cases a vested right would represent a larger sum of money than the employee has ever had occasion to handle before in his life. The chance that he would not handle it wisely is good, and there is even a chance that he might be talked into quitting his job to get the money so that he could invest it in some "get-rich-quick" scheme. To protect the employee, and to a lesser extent the company, it is fairly common practice to specify that whatever amount has been vested in the employee shall be used to buy a retirement income for him to begin at the normal retirement age. How much this income will be will depend on the amount of money that is "vested" in the employee and on the employee's age at the time the retirement income (annuity) is purchased. If the amount of money vested in

the employee is too small to buy retirement income of more than, say, $10 or $20 or $50 a year, then it may all be paid to him in the form of an immediate cash settlement. In contributory plans, the employee is frequently given the choice of having his own contribution returned as a lump sum of cash or of receiving whatever retirement income can be bought with both his own and the employer's contribution.

Where you're likely to have trouble with a vested plan is in specifying the circumstances, if any, under which an employee will forfeit his otherwise vested interest. For example, an employee permanently removed from the payroll for lack of work would certainly be entitled to his vested interest. On the other hand, you will probably want to have a pretty clear-cut provision stating that the employee who is discharged for fraud or theft thereby forfeits his vested right. But what do you do in the case of a man who is discharged for insubordination, drunkenness, fighting, or inefficiency? Those are questions you will have to answer for yourself, but whatever your answer, be sure that such situations are clearly provided for in the contract.

One of the trickiest problems of all is created by the man who is laid off. How long must he be off the job before he can withdraw his vested interest in the form of cash? One company said the answer should be 6 months. One of its employees was laid off and at the end of 6 months withdrew approximately $800 as a cash settlement. At the end of another 2 months, work was again available and he went back to his old job. Because another section of this same contract provided that "continuous employment" should not be interrupted by a layoff of less than 1 year's duration the administration committee ruled that this employee was just as much entitled to a pension based on his full service as though he had never exercised his vested rights. Furthermore,

the committee said that as of the day of his return, this employee had a vested interest exactly equal to the amount he had previously withdrawn. And inasmuch as the $800 paid to the employee represented the face amount of premiums used to purchase annuities when the employee was younger, the employer had to shell out considierably more than $800 to the insurance carrier in order to buy an equivalent amount of retirement income starting at the employee's present age.

Defining the effect of layoffs on vested rights is greatly simplified when you do not permit the employee to withdraw his vested right in the form of cash. Where the money remains in the pension fund or in the form of annuities, it is an easy matter to resume contributions on behalf of an employee if and when he is called back from a layoff.

One thing you have to watch out for in writing a vesting provision is possible conflict with the Wage-Hour Law. Technically, if the employee has a right at any time to receive any of the employer's contributions to the pension fund in the form of cash rather than as pension, then these contributions must be considered wages for the purpose of figuring overtime pay. In actual practice, the Wage-Hour Division has not held to a strict interpretation of its original ruling. Rather the Division has acted on the premise that merely because an employee is given a vested right the employer's contributions will not be considered as wages *if* the vested right is merely "incidental" to the whole pension program. The test which the Wage-Hour Division has relied on is this: If the employer's contributions are not considered wages for purposes of the Social Security tax, then they are not considered wages for purposes of the Wage-Hour Law. The test will probably be unchanged under the 1949 amendments.

If you are going to give the employee a cash option in a vested-rights clause, you would probably do well to specify

that the option can be canceled by the company in the event of a new interpretation from the Wage-Hour Division that would cause your contributions to lose their exempt status.

To some extent the form in which vested interests may be made available to employees will be limited by the manner in which you fund your plan. With a group annuity plan, for example, it is possible to give the employee a choice between cash and an income to begin at normal retirement date of whatever amount can be purchased by the employee's own contributions plus his vested interest. Where individual annuities (either with or without life insurance) are used, you can give the employee a third option: You can permit the employee to "take over" the policy by paying the difference between the present cash value and his vested interest, plus any future premiums. Where the plan is financed through group permanent insurance, you can give the employee a choice of cash, reduced paid-up insurance, or (usually) to continue making payments to the insurance company at the same rate you were paying them, thereby keeping the full policy in force. This latter option may be particularly valuable to the employee who is no longer insurable. Some group permanent policies provide for the employee to have a choice of converting his vested interest to ordinary life insurance, with premiums to be paid as of the attained age, but without having to provide evidence of insurability. If your pension is financed through an uninsured trust fund, you will be able to make available to the employee an almost unlimited number of options for receiving his vested interest. You *can* do almost anything; as a practical matter, the thing you have to watch out for is that your pension trust fund doesn't become swamped in administrative detail by also becoming a private retirement income trust fund for hundreds or even thousands of ex-employees.

REFERENCE REVIEW

On August 31, 1946, the Bureau of Internal Revenue reported on the vesting provisions of 6,862 pension plans approved for tax exemption up to that time. Included in the report were 47 plans combining profit-sharing and pension features. In a footnote, the Bureau noted that "there is considered to be full vesting when an employee obtains the right, in the event of his withdrawal from the employer's service, to the benefits derived from all of the employer's contributions made on his behalf."

Immediate vesting was provided in 1,016 of the 6,862 plans. Some vesting prior to retirement (but not immediate full vesting) was provided by an additional 4,898 plans. The balance, 948 plans, provided no vesting whatever before retirement. It is interesting to note that 94.2 per cent of all plans wholly insured by individual contracts provided at least some degree of vesting before retirement; 83.7 per cent of the plans fully insured by group contracts provided for at least some vesting; only 49.6 per cent of self-insured plans provided any vesting whatever.

The study of "289 Retirement Plans" by the Bankers Trust Company includes a rather detailed table (Table 5-1) of the vesting provisions of the plans examined.

Comments of the Bankers Trust Company on vesting provisions of various plans according to the year in which the plans were adopted or amended seem to indicate a slight tendency toward more liberal vesting provisions in the new plans. The following excerpt from the report of the Bankers Trust Company seems to be particularly pertinent:

> Among the plans amended in 1946–47, vesting was added to five plans which previously had no provision

for vesting prior to normal retirement age. In three other plans, the provision was liberalized by reducing the period of service or the age requirement for full vesting. Two plans in which the vesting provisions were based on "years of membership in the plan" were modified to

TABLE 5-1*

Vesting provisions	*Number of plans*		*Per cent of plans*
No vesting		69	23.9
Vesting on completion of a period of service			
15 years or less	41		
20 years or more	17	58	20.0
Vesting on attainment of an age			
Age 50	1		
55	17		
60	21	39	13.5
Vesting on completion of service (usually 10 years to 20 years) and the attainment of an age			
Age 45 or less	21		
50	11		
55	53		
60	17	102	35.3
Immediate vesting without an age or service requirement		10	3.5
Vesting only on layoff		7	2.4
Data not complete		4	1.4
Total		289	100.0

* Bankers Trust Company.

recognize for vesting purposes "years of service with company."

An excellent "guide for action" on vesting provisions was provided by John M. Hines, Director of Group Annuities, Equitable Life Assurance Society of U. S. Following an address before the California Personnel Management Association, a question from the floor was put to Mr. Hines. The question and the concluding portion of Mr. Hines' answer follow:

> *Question:* "In reference to the 'vesting provisions' of a retirement plan, what relationship does that have to the cost as far as the employer is concerned?"
>
> *Mr. Hines:* ". . . I don't think there is any feature in a plan that gives you more good for the money it costs than vesting, provided you set the vesting at a point where it doesn't cost you anything. And that is what you can do. It is impossible to estimate the cost of vesting. It is going to depend on your turnover rate and where you set the vesting point. With a typical type of vesting after 15 or 20 years of service and the payment at age 40 or 45, the turnover is so negligible thereafter that the cost is merely the absence of refunds that you would otherwise get. I think you can forget the cost factor. I think your problem in vesting is not one of cost but at what point will the vesting do the job psychologically that we want it to do and what is the point where our turnover is pretty well eliminated."

CHECK LIST ON VESTING

No Vesting

1. Have you specified in unmistakable language that employees do not have and will not have any vested

right to any of the moneys accumulated for the purpose of providing retirement income?

Partial Vesting

1. Do you want to vest only employees over a certain age?
2. Do you want to vest only employees who have had a specified number of years of service?
3. Do you want to increase the degree of vesting with either increasing age or increasing service of the employee? If so, specify carefully the schedule of increases.
4. Do you want to vest an amount that bears some definite relation to the employee's contributions? (This would apply only to contributory plans.)

Full Vesting

1. If you want to provide for full, immediate vesting, say so in the contract. It costs you nothing to spell it out, and it eliminates any possibility of misunderstanding on the part of employees.

Forfeitures

1. Have you included a clause providing that the employee forfeits his vested right in the event he is discharged for fraud or theft?
2. Do you want to include a clause providing that the employee forfeits his vested right as a result of any "discharge for cause"?
3. Do you want to include a clause providing that the employee forfeits his vested right if he enters the employ of a competitor within a certain period of time after leaving your company?

Termination of Employment

1. What effect will termination of employment for reasons of layoff have upon the time when an employee may claim his vested right in cash?
2. Have you specified that an employee will not retain any vested right when he leaves the company for reason of a permanent disability resulting in the payment of either a full or partial pension?
3. What provision do you want to make for an employee to claim his vested interest upon leaving the company to enter the Armed Forces? (And what vested rights, if any, will such an employee have upon his return to employment?)
4. Do you want to provide for payment of an employee's vested interest to his heirs in the event of his death during employment? (If you have a group life-insurance program, this may represent an expensive duplication of benefits.)

Payment of Vested Interest

1. Shall the payment be made as a lump sum of cash or in the form of a retirement income to begin at normal retirement age in whatever amount can presently be purchased with the employee's vested interest?
2. Shall the employee have an option as to the form in which he receives his vested interest (cash or retirement income)?
3. Shall the employer have an option as to the form in which the employee receives his vested interest (cash or retirement income)?
4. Shall the method of payment (cash or retirement

income) selected by the employee have any effect on the extent of vesting?

5. Have you protected the employee against borrowing on or assigning his vested interest?

SAMPLE NEGOTIATED CLAUSES ON VESTING

Persons who leave the service thereby relinquish all claims to the benefits of pension allowances.

* * *

A participant leaving the Company prior to retirement may withdraw in cash the total of his own contributions, plus interest, or leave such contributions with the insurance company to purchase a paid-up annuity. If a participant leaves the Company after attaining 15 years or more of seniority, and does not withdraw his own contributions, he will be entitled to receive a paid-up annuity based on both his and the Company's contributions.

* * *

An employee whose active service is terminated at any time otherwise than by death may elect to take, in lieu of pension consideration, a cash settlement which shall be 96% of the total amount paid into the fund by the employee, plus 91.2% of the total amount paid by the Corporation. Compound interest at the rate of 2% will be added to these amounts.

* * *

(*a*) If a member's service is terminated voluntarily, or involuntarily before completing five years of mem-

bership in the plan, he may elect one of the following options with respect to his own contributions:

(1) He may accept the life income beginning at Normal Retirement Date which his own contributions have already provided, if such income equals or exceeds $3.34 per month; or

(2) He may elect a cash withdrawal value equal to the sum of his own contributions plus 2% interest compounded annually, it being understood that the insurance company will reserve the right to change the method of computing withdrawal payments (including the interest rate) with respect to contributions made on and after January 1, 1954;

and there shall be no benefit to such member arising from Company contributions made in behalf of such withdrawing employee.

(*b*) If a member's service is terminated voluntarily or involuntarily after he has completed five years of membership in the plan, and he shall not have been retired on or prior to such termination, he shall be entitled to receive at Normal Retirement Date in accordance with the plan all retirement income provided for him by the Company up to the time of termination as well as the retirement income provided by his own contributions. If such member elects a cash withdrawal value with respect to his own contributions at any time prior to Normal Retirement Date, he will lose the retirement income purchased by the Company's contributions in his behalf.

CHAPTER 6

EMPLOYEE CONTRIBUTIONS

MANAGEMENT REVIEW

The big "pension battle" of 1949 was fought on the issue of whether or not employees shall contribute to pension funds. The President's Steel Industry Board recommended noncontributory pensions. In a statement made just before the steel strike was called, Benjamin F. Fairless, President of the United States Steel Corporation, called the principle of noncontributory pensions and welfare funds "a revoluntionary doctrine of far-reaching and serious consequences to the whole nation." The president of another of the major steel producers referred to the "abandonment of the contributory principle" as the "most deadly part" of the Fact Finding Board's report. He added, "We are going to stand and fight on that."

Except for Bethlehem, which had had a noncontributory plan since 1923, the steel companies did stand and fight it out on principle. They fought, and they lost. As a result, the contributory "principle" is no longer acceptable to unions—as a *principle.* This does not mean that unions will never again agree to contributory plans. They did so in several cases within two months after the steel settlement, and will continue to do so.

What it does mean is that contributory plans must be sold to unions on a realistic basis and not as a matter of "principle." Although they have seldom been well stated,

there are plenty of realistic arguments in favor of contributory plans.

The point of greatest interest to both unions and workers is that a contributory plan makes possible a scale of benefits in advance of the benefits that can be provided by a noncontributory plan. How necessary the employee's contribution really is can be seen when you stop and consider what it cost to provide pensions of $60-odd a month ($100 a month including Social Security) for just the relatively few workers who reach age 65 after 25 to 30 continuous years of service. Cost of living studies have clearly indicated that $100 a month including Social Security is inadequate to support a man and wife over 65. Something between $125 and $150 is necessary, according to the Bureau of Labor Statistics. If the combination of federal and private pensions is ever to reach this level, additional and significant contributions from the employee will be required.

Cost Factors

But don't think that $1 of employee contributions will make possible an extra dollar's worth of *pension.* (Or, conversely, that $1 from an employee will reduce your cost by $1 for a given scale of retirement income.) The employee will get an extra dollar's worth of *benefits* all right, but those benefits will necessarily be in a somewhat different form. Because of the "automatic vesting" of employee contributions, up to 30 cents out of every dollar contributed by employees will have to be used to pay death benefits to the heirs of those who die before retirement. The return of contributions to employees voluntarily leaving the company before retirement will reduce the effect of the contributions on the pension scale still further. It's all just a matter of the form in which the employee receives the benefits. Naturally, the

effect of the employee contributions will be more pronounced if the employee has a vested right in the employer's contribution.

From the employee's point of view, there is a good deal to be said in favor of some of his benefits being in the form of a vested right in his own contributions. If the company has no life insurance program, the return of the employee's contributions will be a boon to his family in the event of his death before retirement. With a contributory plan, the employee is provided with a "cushion" of enforced savings he can fall back on in the event he should be laid off for lack of work. Those are types of "benefits" the employee needs and appreciates, and which are generally available to him only through the contributory plan.

Tax Factors

Furthermore, there is a tax advantage to the employee under the contributory plan. Retirement income, up to the amount of the employee's contribution, is tax-free. Any pension provided by the employer's contributions is taxed as regular income at a time when the employee will presumably be living on less total income and therefore less able to pay tax.

The tax argument, however, has another side to it. The unions are constantly stressing the tax benefits of a noncontributory plan. In its "Basic Minimum Standards," the UAW puts it this way: "When workers pay for benefits through payroll checkoff, the money for benefits is subject to withholding tax. By direct employer payments . . . almost 20 per cent more benefits can be had because of this one factor." As a "whole-hog-or-nothing" proposition, the UAW is substantially correct. What UAW neglects to mention is the fact that employers are not asking employees to pay the whole

cost of pensions, but merely to contribute a share of the cost. If you assume that the employer did no more than match the employee's contributions, the increase in benefits would be half of the 20 per cent claimed, or about 10 per cent. On a 3-to-1 or 4-to-1 basis (not at all uncommon in contributory plans) the increase would be 5 per cent or less.

The dangerous fallacy in the UAW argument is that it assumes that a wage increase in the amount of the total pension cost is going to be granted. If, indeed, the employer is going to raise his labor cost by $2 per man per week, it is better for the employee to have this entire amount go directly into a pension fund than to have half of it go into a pension fund and the other half be passed out as a direct wage increase —which he is required to contribute to the pension fund. In such a situation, assuming the employee to be in the 20 per cent tax bracket, he would have left only 80 cents of the $1 increase to contribute to pensions. In total, then, only $1.80 of the employer's increased labor cost of $2 a week would be available to go into the pension fund. The trouble is that this is seldom, if ever, the situation.

It is interesting to speculate about the situation that might result if a group of employees, offered a contributory plan, went to management with a counterproposal for a noncontributory plan plus a wage *cut* in the amount of the suggested contribution (plus normal withholding tax). Just to see how it would work out, let's assume the employer had proposed a contribution of 80 cents per employee per week. To have 80 cents available as contribution, the employee would have to earn a gross amount of $1. By taking a pay *cut* of $1, the employee would not be changing his net income after contribution to the pension fund, but would be increasing by 20 cents (or a full 25 per cent) the size of his "contribution" to the pension fund. While such a plan might have a very

definite appeal to some employees, any employer who agreed to it would be taking more than just an outside chance of facing a charge of collusion to evade federal taxes.

Relation to Benefits

If you decide that you are going to set up a contributory plan, one of the decisions you must make is what relation the employee's contributions will bear to his potential retirement income. It should be noted that while it is not necessary (and probably not desirable) for contributions and retirement income to vary in direct ratio, you will probably have trouble getting tax exemption for your pension plan unless you can prove there is some reasonable relationship between contributions and benefits. Most, though not all, contributory plans provide for the employee's contribution to be a certain percentage of his monthly or yearly income. To simplify the bookkeeping, it is not uncommon to set up a schedule of deductions which will reflect the percentage and at the same time round off the actual amount to the nearest 10 cents or 25 cents.

Voluntary Contributions

There is a voluntary feature which is today being added to some pension plans of both the contributory and noncontributory type. In such plans, the employee may, if he wishes, make an entirely voluntary contribution, generally up to 2 per cent (in addition to anything he might be contributing toward the payment of the basic benefit, if the plan is contributory). In some plans of this character, the employee receives in return for his voluntary contribution a stated amount of additional pension. In others, the company promises to match the employee's voluntary contribution, and to provide the employee with additional retirement income

of whatever amount can be purchased with the funds so accumulated.

NEGOTIATOR'S REVIEW

Unions affiliated with the CIO have almost invariably demanded noncontributory pensions. Doubtless they will continue to do so. While not taking a position in favor of contributory pensions, unions affiliated with the AFL have generally adopted the attitude that they are "not opposed" to contributory plans. Backed by the recommendations of the Steel Industry Board, it seems likely that all unions will become even more militant in their demands for noncontributory pensions. (See page 347 for new AFL stand.)

New "evidence" to support the position of these unions was provided by Eugene C. Grace, Chairman of the Board of the Bethlehem Steel Corporation, in a letter to stockholders asking approval of the new Bethlehem pension plan. His letter of December 19, 1949, constitutes possibly the strongest management endorsement on record of the noncontributory plan. You can be almost certain that your union will insist that you give them an adequate explanation of why your situation differs markedly from that which Mr. Grace claimed exists at Bethlehem. The pertinent paragraphs of Mr. Grace's letter follow:

> The question of whether Bethlehem should have a contributory or a non-contributory plan has many times been carefully considered by the Management, which has always believed, and still believes, that for Bethlehem a non-contributory pension plan is better than a contributory plan.
>
> Bethlehem's experience has shown that only a relatively small percentage of employees will normally ever

receive pensions, because the great majority of them either die or otherwise terminate their employment before they reach a pensionable age. An important problem under contributory pension plans is what to do with the contributions made by those employees who never become pensioners. It is generally recognized that they should be regarded as having some equity in the moneys which they have contributed, and some contributory plans provide for a refund of their contributions, with or without interest, upon their death or leaving for other employment prior to being placed on the pension roll. It is obvious, however, that under a contributory plan the aggregate amount of the contributions made by those employees who ultimately receive pensions is only a small part of the total cost of their pensions. Accordingly, under such a plan which provides for such refunds, unless the contributions which the employees shall make shall be so large as to deter them from participating in it, the employer will bear all except a small part of the cost of the pensions and also bear the expense of, and be required to do the work in connection with, the handling and refunding of contributions to the employees who shall never become pensioners. Other troublesome problems are bound to arise under a contributory pension plan, such as how the fund created by the contributions of the employees and the employer shall be managed and the question of whether insurance covering the obligations to the employees for pensions should be purchased."

Employee Participation

If you do decide to set up a contributory plan, you will probably want to put it on a voluntary participation basis as

far as the employees are concerned. While in some situations it might be possible to require participation in the plan as a condition of employment, there are many state laws which forbid such a practice. As a practical matter, if for no other reason, you will want to put a contributory plan on a voluntary basis to avoid possible ill-feeling on the part of the employees who do not wish to participate.

However. to get tax exemption for a plan, 75 per cent of the eligible employees must participate.

Many employers have, at one time or another, expressed the fear that insufficient numbers of employees would elect to participate in the plan. Experience shows that participation by 90 to 99 per cent of employees is the rule rather than the exception. But you will want to protect yourself as far as the employees who decide not to participate are concerned. For this reason, you should require that *every* employee either participate or sign a waiver indicating that he has been given an opportunity to participate and that he has deliberately and in full knowledge of the step he was taking declined such an opportunity. This step will immunize the company from claims of nonparticipating employees who might later charge the company with failure to inform them adequately of their rights under the plan.

However, it is not too unusual to find a provision that will permit participation to begin at some later date. If such a provision is inserted, it is usually accompanied by a clause specifying that, in so far as the pension plan is concerned, the employee's service with the company shall be considered to have commenced on the day he elected to participate. Some plans go even further, and permit employees to withdraw from the plan and then later reenter it. Any such arrangement should be very carefully spelled out in the contract so that there cannot later be a misunderstanding regarding it.

One of the things you want to be sure to do is to specify the time limit within which new employees (once they become otherwise eligible) must elect to join or not to join the plan.

Low-paid Employees

If the union does agree to a contributory plan, it is quite likely to demand that you provide a greater number of dollars of monthly pension per dollar of contribution by the low-paid employee than by the high-paid employee. Within reasonable limits, you will probably be willing to do this. It can be accomplished by either providing for a larger ratio of employer-to-employee contributions at the low end of the scale or by providing for some minimum amount of pension to be paid (like the $100 including Social Security minimum in many of the new plans). Your decision as to which of these choices you elect will to a certain extent be governed by the method of financing you select for your plan.

A further point you will want to be sure to cover in your contract in connection with employee contributions is the circumstances under which such contributions shall be returned to the employee. The considerations involved here are almost identical with those pointed out in the preceding chapter on vesting.

REFERENCE REVIEW

Prior to the war, most pension plans were on a contributory basis. Then, during the war years, when corporate profits and corporate taxes were high and employees' incomes were being squeezed between a rising cost of living and the wage stabilization restrictions on pay rises, the percentage of noncontributory plans rose sharply.

The Bureau of Internal Revenue provides the following tabulation (Table 6-1) of pension and profit-sharing plans,

classified as contributory and noncontributory, according to the date of adoption. The Bureau calls attention to the fact that since "very few" profit-sharing plans call for contributions, "practically all" contributory plans may be assumed to be pension plans. (For comparative purposes, the total of all profit-sharing plans is shown for each period.) Only plans qualifying for tax exemption are included.

TABLE 6-1 *

Plan became effective	Contributory plans		Noncontributory plans		Profit-sharing plans	
	Number of plans	Number of employees	Number of plans	Number of employees	Number of plans	Number of employees
Prior to 1930......	37	481,075	73	970,408	5	57,299
1930 to 1939......	425	434,394	124	113,942	32	17,730
1-1-40 to 9-1-42...	526	315,602	762	208,448	445	74,042
9-2-42 to 12-31-44	1,101	205,304	4,738	685,239	1,631	175,862
1945 and 1946.....	439	98,614	1,145	144,245	395	41,730

*Data from Bureau of Internal Revenue.

The study of "289 Retirement Plans," made by the Bankers Trust Company of New York, further indicates the tremendous postwar trend back toward contributory plans. Table 6-2 shows the number of new plans by years of adoption (1943 through 1947) and the number and percentage of the noncontributory plans in each year.

In a comment accompanying this table, Bankers Trust Company points out that "none of the noncontributory plans adopted during the war period have been changed to a contributory basis." On the other hand, it was pointed out that amendments to these plans made during the 1946–1947

TABLE 6-2*

Year of adoption	*Number of plans*	*Number non-contributory*	*Percentage non-contributory*
1943	26	22	85
1944	67	38	57
1945	52	21	40
1946	55	27	49
1947	33	10	30
Total	233	118	51

* Bankers Trust Company.

period resulted in increases in employee contributions in four plans (in each case accompanied by an increase in benefits) and by decreases or elimination of employee contributions in five plans (without any reduction of benefits).

In the October, 1949, issue of *Management Record,* the National Industrial Conference Board analyzed 255 pension

TABLE 6-3*

PROPORTION OF PENSION PLANS ON CONTRIBUTORY BASIS, BY TYPE OF FUNDING

Type of funding	*Total companies*	*Contributory plans*		*Noncontributory plans*	
		Number	*Per cent*	*Number*	*Per cent*
Group annuity plan	129	97	75.1	32	24.9
Pension trust plan	99	47	47.5	52	52.5
Nonfunded plan	19	1	5.3	18	94.7
Other†	8	5	62.5	3	37.5
Total	255	150	58.8	105	41.2

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†Includes three individual-policy plans and three group permanent policies.

plans adopted or revised since October 1, 1945, and which apply to "rank-and-file employees." Two tables (Tables 6-3 and 6-4) accompanying this analysis show the distribution of

TABLE 6-4*

PROPORTION OF PENSION PLANS, CONTRIBUTORY AND NONCONTRIBUTORY, BY TYPE OF INDUSTRY

Industrial classification	*Total companies*	*Contributory plans*		*Noncontributory plans*	
		Number	*Per cent*	*Number*	*Per cent*
Manufacturing					
Automotive	9	8	88.9	1	11.1
Chemicals and drugs	17	12	70.6	5	29.4
Electrical equipment	13	7	53.8	6	46.2
Food, beverage, and tobacco	23	14	60.9	9	39.1
Machinery	14	7	50.0	7	50.0
Metal and metal products	20	11	55.0	9	45.0
Paper and paper products	25	14	56.0	11	44.0
Petroleum	10	9	90.0	1	10.0
Textiles	13	8	61.5	5	38.5
Others	31	15	48.4	16	51.6
Total	175	105	60.0	70	40.0
Nonmanufacturing					
Banks and insurance	21	12	57.1	9	42.9
Public utilities	39	23	59.0	16	41.0
Wholesale and retail	17	7	41.2	10	58.8
Unclassified	3	3	100.0	—	—
Total	80	45	56.3	35	43.7
Grand total	255	150	58.8	105	41.2

*Copyright by National Industrial Conference Board.

the contributory and noncontributory plans by types of funding and by type of industry. These tables are reproduced with the permission of the National Industrial Conference Board.

On the matter of the size of employee contributions, Bankers Trust Company of New York provides the following analysis of 137 plans which require employee contributions on earnings both under and over $3,000:

> 87 plans relate the contribution rate to the rate of accruing future service benefits. In most of these plans, the rate of employee contributions is 2 times, 2½ times, or 3 times the rate at which benefits are accruing. As an illustration, if the benefit is 1% of each year's compensation, the employee contribution rate would be 2%, 2½%, or 3% depending on the multiple selected by management.
>
> Only four of the 87 plans use a multiple less than 2 times the benefit rate, and only 13 of the plans use a multiple higher than 3 times the benefit rate.
>
> 11 plans are "money purchase" plans. These are plans in which the employee contributes at a fixed rate, and the company contributes an amount equal to the employee's contributions or equal to a multiple of the employee's contributions. The future service benefit provided for the employee will be the pension which the combined contributions will fund. The company contributes an amount equal to the employee's contributions in six plans, 1¼ times the employee's contributions in one plan, 1½ times in three plans, and 2 times in one plan.
>
> 39 remaining plans use a variation of the first pattern above or have a benefit formula which does not lend itself to a similar analysis.

One of the benefit formulas not catalogued in the above analysis by Bankers Trust Company, but which is used by some of the most important contributory plans, relates retirement income to the total contribution made by the employee during his years of participation. For example, the General Electric Company has a schedule of employee contributions related to income and provides that an annual retirement income shall be equal to 40 per cent of the employee's total contribution. Where this type of formula is used, retirement income is generally established as somewhere between 25 and 50 per cent of the employee's total contributions.

One point that should be noted is that in 97 of the 137 plans calling for employee contributions on earnings both under and over $3,000 per year, a higher rate of contribution is specified for earnings above $3,000 than for earnings below that level. (Because of the manner in which that contribution formula is stated in some cases, it might be possible to apply different interpretations and arrive at a figure either slightly higher or slightly lower than 97.) Bankers Trust Company does note, however, that, in general, "it is unusual to find a contribution rate which exceeds 4 per cent on compensation under $3,000 per year or 6 per cent on compensation over $3,000 per year." It is worth nothing, further, that of the 137 contributory plans, only two provide for inclusion of Social Security benefits in the retirement income calculated under the plan formula.

CHECK LIST ON EMPLOYEE CONTRIBUTIONS

Amount of Contributions

1. How much must the employee contribute?
2. Do you want to provide for additional voluntary contributions by employees above this amount?

3. Have you specified that either the employer's contributions will bear some definite relationship to employee contributions (and if so, what) or that they will merely be "sufficient" to provide a certain monthly retirement income?

Employee Participation

1. What steps must present employees take to join the plan?
2. What steps must future employees take to join the plan?
3. Will participation be a condition of employment for future employees? (Watch out for legal restrictions on this.)
4. Have you required that employees either join the plan or sign a waiver indicating they had a chance to join and elected not to?
5. What provision do you want to make for employees joining the plan at a later date, after first electing not to? (If none, say so in the contract.)
6. What provision do you want to make for employees withdrawing from the plan without actually leaving the company? (If none, say so in the contract.)

Return of Contributions

1. Have you specified fully the conditions under which an employee may have his contributions returned?
2. Shall interest be paid on an employee's contributions when returned?
3. Shall surrender charges be deducted from an employee's contributions when returned?
4. What option, if any, shall the employee have as to whether his contributions are returned as cash or may be left in the fund to provide retirement income?

5. Have you protected the employee, through an appropriate clause, against borrowing on or assigning his contributions?

SAMPLE NEGOTIATED CLAUSES ON EMPLOYEE CONTRIBUTIONS

It has been agreed to between both parties that a retirement plan will be put into effect whereby all costs will be defrayed by the Company with the exception of two per cent (2%) of the employee's monthly earnings. Any employee earning over $250.00, will contribute two per cent (2%) of the $250.00 and four per cent (4%) of any amount over $250.00 toward the plan.

(*a*) Salary class	(*b*) Monthly salary	(*c*) Monthly salary for purposes of plan	(*d*) Members' monthly contribution	(*e*) Monthly life income at normal retirement date for each full year of membership
	$110 and under			
1	$110 and under	$100	$ 3.00	$1.00
2	111 to $130	120	3.60	1.20
3	131 to 150	140	4.20	1.40
4	151 to 170	160	4.80	1.60
5	171 to 190	180	5.40	1.80
6	191 to 210	200	6.00	2.00
7	211 to 230	220	6.60	2.20
8	231 to 250	240	7.20	2.40
9	251 to 270	260	7.80	2.60
10	271 to 290	280	8.40	2.80
11	291 to 310	300	9.00	3.00
12	311 to 330	320	9.60	3.20
13	331 to 350	340	10.20	3.40
14	351 to 370	360	10.80	3.60
15	371 to 390	380	11.40	3.80

For additional salary classes, columns (*b*) and (*c*) will increase by multiples of \$20; column (*d*) will increase by multiples of \$0.60, and column (*e*) by multiples of \$0.20.

NOTE: Salary classes for hourly rate employees will be determined on the basis of a normal work week and base rates of pay exclusive of overtime. Salary classes for salaried employees will be determined on the basis of normal monthly salary only.

* * *

The Employer and the Union will jointly agree upon a sum of money to be set aside by each employee each week for the purpose of setting up a fund which will eventually be used to establish a Pension Fund. The Employer agrees to deposit in this fund a sum equal to that set aside by the employees as above stated. The sums so accumulated shall be deposited in an account in the . . . Bank under the control of both parties. Both parties shall agree in the future on all features of the Pension Plan, or any disposition, investment, transfer or use of these funds.

* * *

All employees in the classifications hereinbefore specified and all supervisors who elect to participate in the Plan, shall contribute to such fund, the sum of FIVE DOLLARS (\$5.00) per month each, beginning April 1945, as to present employees and present supervisors who elect to participate therein, and beginning with the month in which employed as to new employees and beginning with the month during which they elect to participate as to new supervisors, and continuing throughout their em-

ployment by the Company, which contributions shall be deducted from the earnings of the employees by the Company and paid to the Trustees hereunder.

Any eligible employee who did not elect to participate in the Plan when it was instituted, may later come under the Plan by contributing thereto an amount equal to the aggregate monthly contributions he would have made if he had been participating in the Plan from its inception, and by agreeing to thereafter pay into the fund $5.00 per month so long as he is employed by the Company. In that event, the Company shall pay into the fund an amount equal to the contribution made by such employee.

CHAPTER 7

AMOUNT OF RETIREMENT INCOME

MANAGEMENT REVIEW

One of the first decisions you must make in any pension plan is whether you will guarantee a certain amount of retirement income (either a flat sum or a variable but definitely calculable amount) or whether you will simply guarantee contributions of a certain amount. The former arrangement is generally known as a "benefit" plan; the latter as a "money-purchase" plan.

In a benefit plan, the employee's retirement income is known in advance; the employer's costs are not. In the money-purchase plan, the employer's costs are fixed; the employee can do no more than guess at his retirement income until he actually reaches retirement age. The great majority of existing plans are of the benefit type. Almost without exception, unions are demanding that type of plan.

"Flat Benefit" Plans

Almost unheard of a few years ago, the so-called "flat benefit" plans that provide the same monthly retirement income for every employee have come into considerable national prominence as a result of the union drive for pensions. "$100 a month at age 65" is a good slogan, something that it is easy for workers to understand. It's what the unions are demanding. But as the union leaders will admit in private conversation, it's not really what they want. What they're really after, of

course, is $100 a month at 65 as a *minimum* pension. That's what they got in the Bethlehem plan, but there they were building on a plan that had been in existence for 25 years.

Being realists, the union leaders decided to go after the minimum first. That way they would have something to build on, not up to. A pension of $100 a month, as we saw in Chapter 2, is a very expensive proposition for an employee who is approaching retirement. It can be provided for a rather modest cost if you start accumulating the fund for a worker when he is rather young. Taking the average of the entire work force, the unions figured that they would be able to get management to agree to such a pension as long as the $100 minimum was also a maximum. Obviously, 10, 20, or 30 years from now (if not sooner) the unions will come back to you and say, "You gave benefits of $100 a month to a lot of guys who had only a few years of service under the plan; isn't it only fair that the fellows that have put in many more years should get proportionately larger benefits?" After that, of course, will come the argument that the man whose skill (or seniority) has brought him into a higher paid classification should be rewarded by an additional retirement income. The arguments are completely logical. Even if such reservations are not in the back of the minds of union men who negotiate flat benefit plans in the next few years, union members will demand such improvements in pension plans. Grumblings of dissatisfaction are already being heard from young workers and from highly paid workers.

The flat benefit plan, with payments proportionately reduced for less than a certain number of years of service is, in effect, a plan which provides for a very high eligibility age (40) and benefits which bear no relation to income. Unless we go through a period of very marked inflation in the next five years, it will be surprising indeed if the first union demand

for "improvements" in the flat benefit plans is not for a reduction of the "eligibility age," while still retaining the basic formula of $100 a month for 25 years of service.

"Percentage of Income" Plans

A few plans provide for retirement income based exclusively on a percentage of earnings—either average earnings or final earnings. Unless your situation is quite unusual, it is doubtful that you would want such a plan. There are two reasons for this: For workers hired at an advanced age, the costs are very high; and benefits are generally out of all proportion to services rendered over a short span of years.

"Percentage of Income Times Service" Plans

Probably the most common of all benefit schedules is the one which provides for an annual retirement income based on earnings and on years of service with the company (or under the plan). There are several variations of this type of plan. The two that show up most often are those that provide for retirement income either of a certain percentage of average earnings times the number of years of service, or of a certain percentage of average income in the years immediately preceding retirement times the number of years of service.

The "percentage of average annual income" formula makes it easy to figure cost as you go along. In effect, this formula means providing a retirement income equal to a certain percentage of each year's income *as it is earned.* The averaging will take care of itself.

Example: Say your plan provides an annual pension of 1 per cent of average pay for each year of service. Jones comes to work for you at the age of 35. He earns $2,000 this year. You know that when he reaches 65 he will be

entitled to a pension of $20 per year for *this year's* work. You know that you have incurred this liability as far as Jones is concerned, whether you actually go out and purchase an annuity for him in the amount of $20 a year, or simply set up an account in which Jones is credited with that amount. Now suppose Jones earns $3,000 next year. That means you would either buy for him or credit to him a retirement income of $30 a year for next year's work. For the 2 years, his average earnings will have been $2,500, and his resulting annual retirement income would be 1 per cent of $2,500 or $25 times 2, or $50. This is exactly what you "bought" for him on a yearly basis. This automatic averaging will continue right up to the day of retirement.

When the retirement income is based on the number of years of service times the average annual earnings in the final 5 or 10 years of employment, the administrative problem becomes a little more difficult, and the costs are almost certain to be greater, particularly for each employee in the years immediately preceding his retirement.

Example: Your plan provides for annual retirement income of 1 per cent of earnings in the 5 years immediately preceding retirement times the number of years of service. Smith comes to work for you at the age of 25 and earns $2,000 each year until he is 60. Under a straight "1 per cent times years of service" formula Smith would have been credited to date with $700 of retirement income ($2,000 times 1 per cent times 35 years). At the age of 60 Smith is promoted from his job as elevator operator to the job of assistant starter. With this promotion, he gets an increase of from $2,000 to $3,000

a year. Again, under the straight "1 per cent formula," he would earn a retirement income of $150 a year during these last 5 years ($3,000 times 1 per cent times 5 years), making a total of $850. But your plan provides that his retirement income will be figured on the basis that all of his years of service were, in fact, at the $3,000 rate. So under your plan Smith will get a pension of $3,000 times 1 per cent times 40 years, or $1,200 a year. This is $350 a year more than Smith would have received under the straight "1 per cent times years of service" formula. All of the money necessary to provide the additional $350 a year must be accumulated during the last 5 years of Smith's employment.

Basing the amount of pension on average income during the 5 years immediately preceding retirement is often held to add a "special incentive" character to the pension plan. The reasoning is that by the time a man is past 60 he is pretty well free of family responsibilities and may therefore tend to "let down" rather than to try and continue to improve his earnings. While the argument sounds perfectly plausible, it would be difficult to either prove or disprove. It would certainly appear to be far more valid with regard to management personnel than with regard to rank-and-file workers. (Opportunities for major income advances among rank-and-file workers are generally rather limited after age 60, whereas this is the period when many executives make their final, major stride.)

"The Churchill Formula"

"Percentage of income" plans have generally been subject to the criticism that they do not properly reward long service; that the man who is hired at an advanced age receives a benefit out of proportion to his real contribution to the company's

success. "Percentage of income times years of service" plans are criticized on the basis that they do not give proper recognition to highly skilled or outstanding men who are hired late in life *because* of their special qualifications and experience; the pension these men receive is very definitely limited by the possible number of years of service to normal retirement age.

To overcome these criticisms, E. S. Churchill of Hartford, Connecticut, has devised a special pension formula that combines the features of "percentage of income" and "percentage of income times years of service" formulas. This formula is copyrighted as the "Churchill Formula." What Mr. Churchill has done is to combine in his formula a certain percentage of salary, regardless of years of service (generally from 20 to 40 per cent) plus a certain percentage (generally ½ per cent) of income for each year of service to normal retirement age.

> *Example:* You want to use the "Churchill Formula" with a base per cent equal to 20 per cent of income plus ½ per cent of income for each year of service. Brown comes to work for you at age 50. At age 65, his annual pension will be 20 per cent plus 15 times ½ per cent, or 27½ per cent of income. O'Brien, on the other hand, came to work for you at age 25, so it was possible for him to gain 40 years of service. His annual pension will be equal to 20 per cent plus 40 times ½ per cent, or 40 per cent of income.
>
> If you had been using a formula of 1½ per cent of income for each year of service (without any base factor), Brown would have retired on 22½ per cent of income (1½ per cent times 15 years), and O'Brien would have retired on 60 per cent of income (1½ per cent times 40 years).

The "Churchill Formula" can, of course, be used either where the pension is based on average income or on income in the 5 or 10 years immediately preceding retirement. Mr. Churchill has also prepared and copyrighted a series of charts for several different "base factors," which make it possible to determine automatically the amount of benefits to be purchased each year for a given employee. You need know only the employee's income for the year and the total number of years of service he will have when he reaches his normal retirement date.

Weighted Benefits

If a straight "1 per cent of income times years of service" formula is used, the employee earning less than $3,000 per year will, percentagewise, receive a larger benefit than the man earning more than $3,000 per year. (This assumes that Social Security payments are not deductible from the pension due. The advantage in percentage payment is for the reason that Social Security covers only the first $3,000 and will be in addition to the pension otherwise payable.)

Many plans do not deduct the Social Security pension from the private pension, but do compensate for it in part by providing a lower percentage of benefits on income under $3,000 than on income over $3,000. Perhaps the two most common formulas are ¾ per cent of each year's compensation under $3,000 and 1½ per cent of each year's compensation over $3,000; and ½ per cent of each year's compensation under $3,000 and 1 per cent of each year's compensation over $3,000. Many other combinations are used, but the differential rarely exceeds 1 per cent (probably on the assumption that this is roughly equal to the *employer's* contribution to Social Security). The net result is that the low-paid employee gets the benefit of his own Social Security contribution, and

probably part of his employer's Social Security contribution, on *all* of his income, whereas the more highly paid man will feel this effect on only part of his income.

Some employers, however, do not feel that this goes far enough toward providing adequate retirement income for low-paid workers. One solution used occasionally is to establish the scale of retirement income as a very large percentage of the first $1,000 of earnings, and a rapidly decreasing percentage of each additional $1,000 of earnings.

The "minimum pension" provided in many of the new plans, of course, has somewhat the same effect. However, a minimum of $100 a month, say, produces a very rapidly decreasing percentage of income for workers earning up to $3,000 to $4,000 (depending on the normal benefit formula), and from there on up a pension is generally a fixed percentage for all earning groups.

Relation to Employee Contributions

As was noted in the preceding chapter, many contributory plans relate the scale of retirement income to the size of the employee's contributions. Analysis of most such plans shows that the actual scale of benefits approximates very closely those that would be provided under a straight "percentage of earnings times years of service" plan. If you want to determine your scale of benefits first, it is not too difficult to work backward and determine the rate of employee contributions that will produce a constant relationship between contributions and retirement income.

One point that should not be missed is that a constant relationship between retirement income and employee contributions gives the employer an excellent opportunity to bring home to the employee the very substantial contributions being made by the employer.

Money-purchase Plans

In the money-purchase plans, the employer simply agrees to put up a certain amount of money each year. As employees reach retirement, the money in the fund is apportioned among them according to a predetermined formula, and the employee is provided with whatever amount of retirement income can be purchased with his share. Money-purchase plans have never had wide use, but there seems to be a good chance that they will become more popular in the near future as a result of a plan between the CIO (as an employer) and the members of the United Office and Professional Workers of America. This plan, in effect, is a money-purchase plan supplemented by a guaranteed minimum retirement income.

The other factor that may bring money-purchase plans into prominence is the growing popularity of "deferred income" profit-sharing plans. Under such plans, the employer agrees to put a certain percentage of profits (or a certain number of dollars, providing profits are more than a certain amount) into a pension fund each year. Thus, in years when profits are good the contributions to the pension fund may be very substantial; in years when there are no profits the employer is relieved of responsibility for contributions. From the company's point of view, such plans have very marked advantages; from the employee's point of view, they have very serious drawbacks. Since the company's profit picture cannot be known for years in advance, it is impossible to get any accurate idea of the amount of money that will be available to provide retirement income, and therefore impossible to get an idea of the size of the retirement income. Companies that have established such plans and which publish schedules of retirement income based on "probable" contributions to the profit-sharing pension trust would seem to be placing their whole

employee relations program in grave jeopardy. Employees are not likely to react kindly to the company if, because of poor benefits in future years, there is not enough money in the fund to provide the "advertised" pension.

The "profit-sharing pension" through a money-purchase plan would seem to have its most favorable application as a supplement to a rather modest guaranteed pension provided through regular employer or employer-employee contributions.

Past Service Credit

One of the biggest problems you're going to run into in setting up a new pension plan is providing retirement income for the employee who already has many years of service with the company. You will have very few years in which to accumulate the funds necessary to provide normal pensions for such workers. As we saw in Chapter 3, one way to handle this problem is to set an upper age limit for eligibility which will exclude all present workers over a certain age. In Chapter 4, we saw that it is possible to handle the problem through a schedule of deferred retirement for workers over a certain age when the plan is started.

Probably the most common way of handling the problem is to provide a reduced scale of benefits for years of service prior to establishment of the plan. (Obviously, this solution is not possible in the "flat benefit" type of plan.) Where reduced benefits are used for past service, they commonly range from one-half to three-quarters of the amount credited for each year of future service. Many variations are used.

In crediting past service credits, the employee is sometimes given credit for all years with the company, and in other cases is merely credited with the number of years that he would have served under the pension plan *if* the plan had been in existence. For example, if normal eligibility is at age 35 after

5 years of service, the employee might be credited with only such past service as he has beyond those requirements. In other cases an arbitrary date is set, and no past service prior to that date is credited.

One of the problems you're bound to face in crediting past service is determining the amount of income on which such credit shall be based. You might have in your files records of past earnings for several years, but it would certainly involve a tremendous amount of clerical work to credit each employee with the exact amount he earned in past years. And where employees had service extending over 20, 30, or even 40 years, it is very likely that the records no longer exist. Therefore, it is not unusual to base past service credit for all years on earnings in the year in which the plan is established, or some other recent year for which records will be readily available.

In plans where the retirement income is a flat sum or based on average earnings in the 5 or 10 years immediately preceding retirement, the same effect is sometimes achieved by crediting only half a year or three-quarters of a year for each year of actual service before the plan was established.

NEGOTIATOR'S REVIEW

Unions are going to demand benefit-type plans. Initial demands are very likely to be for the "flat benefit." But where a union thinks it has a chance, it will try to get a plan based on both income and years of service in which a "flat benefit" minimum is guaranteed.

The point to keep in mind is that the only way an employer can stay out of financial trouble on pensions is to negotiate on a "money-purchase" basis—even though in the final reckoning this may be converted to a definite benefit plan. To protect your employees as well as yourself and the union, the first consideration in pension bargaining should be to establish a

financially (and certainly actuarially) sound plan. The only way you can be 100 per cent sure of this result is to negotiate the *cost*, and let the benefits fall where they may.

However, it would be extremely unrealistic for either you or the union to try to negotiate on this basis alone. Both you and the union are in a position where it is doubtful that you can satisfy the employees unless the plan you come up with is pretty specific about the amount of retirement income that will be paid. Because the union won't have to face the costs as well as the employees, it will be more likely to approach the whole problem from the benefit end.

If the union is reasonable, however — and most unions have been on the subject of pensions, despite some hasty conclusions drawn from the steel strike — you can probably approach it on the basis of "what's the best scale of benefits we can get for so many dollars per year or for such-and-such percentage of payroll?"

Despite what may at first seem to be an unfairness to highly paid workers, your first consideration should be establishing a reasonable minimum pension. A "percentage of income times years of service" formula may result in so small a pension for low-paid workers as to be completely inadequate to care for them in retirement, and thus create a public and employee relations problem for you. If you make it plain to the union that you want to approach the problem from this point of view, you will probably find the union more genuinely interested in your cost problem than would otherwise be the case.

(Some employers take the position that pension costs are none of the union's business. Bargaining strategy may force you to adopt such an attitude under certain circumstances. But if employers follow this practice generally, it is hard to see how unions and employees will ever be convinced that

"$100 a month at 65" costs far more in some situations than in others. Furthermore, unless you want to refuse to accept the new legal interpretation of pensions as "deferred wages" it would seem to be almost necessary that you discuss pension costs with the union. Only in that way is it possible for the employee to know just how much of his wage is being deferred as pension.)

If you do tackle pensions from the cost angle, then it will be possible for you and the union (or rather your respective pension experts) to devise a number of different plans each having the same cost. Your actual bargaining problem, then, will be reduced to deciding which plan will give you as the employer the greatest return in terms of employee satisfaction, reduced turnover, and so forth, per dollar of cost.

You want to avoid trying to "bargain out" the actual details. Experience has proved that the results are likely to be less than satisfactory. But once you have agreed on the outlines of a pension plan and had the details worked out by your pension experts, there are certain points that you will want to spell out in your contract.

For example, you will probably have agreed at a fairly early stage as to whether the benefits will be based on average or final pay. But just what pay are benefits to be based on? Is it to be base pay only, or do you include any payments under an incentive plan? And what about call-in pay, special bonuses, special commissions, and pay for union stewards when on union duty? The only safe way to handle this problem is to include in the contract an exhaustive list of exactly the types of pay which are to be included in the computation of either average or final earnings, and then write in a specific exclusion of all other compensation.

If years of service is a factor in determining the benefits to be paid (as it almost invariably is), you will want to have a

very careful definition of just what constitutes "one year of service." In a new plan, you may have to rely on seniority for determining the number of years of past service to be credited. It is not necessary, and it probably would be unduly expensive, to rely on seniority for computing years of future service.

To be able to specify a minimum pension of a reasonable amount, it will probably be necessary for you to include either all or half of the primary Social Security benefit in the computed pension. Be sure to include a clause protecting yourself from having to make up the difference in the event that one of your pensioners accepts "covered" employment after his retirement and thereby forfeits his Social Security pension. The clause in the new Ford contract is a model in this respect. And in states that use experience rating on unemployment compensation, be sure to protect yourself against the increased taxes that would result from one of your pensioners applying for and receiving unemployment compensation.

It may sound like a small thing, but it can cause a lot of unexpected expense if you don't specify in advance whether the final payment is to be made on the payment date immediately preceding or immediately following the pensioner's death. If pension payments are made on the first of the month, and if the final payment is made on the first of the month immediately following a pensioner's death, you will be paying from 1 to 2 months' "unearned" pension to each retired employee. On the other hand, if each month's payment is made at the end of a month, and the final payment is the one immediately preceding the pensioner's death, some pensioners will be deprived of as much as 1 month's "earned" pension. On the average, you will pay 1½ months' "unearned" pension in one case, and you will not pay ½ month's "earned" pension in the other. Whatever your decision, be sure to specify it

carefully in the contract so that you will not be faced with an unexpected expense after the bargain is signed, sealed, and delivered.

REFERENCE REVIEW

Although somewhat out of date to reflect the new minimum pensions currently being incorporated in older plans, the study of "289 Retirement Plans" made by the Bankers Trust Company of New York in 1948 provides two very interesting tabulations of the relation of average annual compensation to benefits (see Tables 7-1 and 7-2). It is to be noted in these tables that the 33 plans studied by the Bankers Trust Company which cover only employees earning more than $3,000 per year are not included "because their benefits are drastically limited by federal tax law and regulation."

TABLE 7-1*

Pension, including Social Security, as percentage of average compensation	*Percentage of plans in each benefit category*			
	Average annual compensation			
	$1,200	*$3,000*	*$5,000*	*$15,000*
Under 35%	3.9%	5.5%	12.9%	35.2%
35 to 40%	..	7.0	9.0	6.2
40 to 45%	2.0	37.5	41.4	23.8
45 to 50%	15.6	10.2	18.8	20.3
50 to 55%	9.4	32.8	11.7	3.9
55 to 60%	26.2	2.7	3.5	9.0
60 to 65%	31.6	2.3	1.5	0.8
65 and over	11.3	2.0	1.2	0.8
	100.0%	100.0%	100.0%	100.0%

* Bankers Trust Company.

In its comment, Bankers Trust Company says, "This table [Table 7-1] illustrates that while there is wide variation in the

benefit pattern of pension plans, some generalizations can be made. (1) A larger percentage pension is usually provided to the lower paid employee than the higher paid employee, in recognition of the fact that the lower paid employee cannot adjust downward his living costs on retirement to the same degree as a higher paid employee. (2) More than 80 per cent of the plans provide benefits falling within the range of the [categories shown in Table 7-2]."

TABLE 7-2*

Employee's average annual compensation	*Benefit categories*
$ 1,200	45 to 65%
3,000	40 to 55%
5,000	35 to 55%
15,000	Under 50%

* Bankers Trust Company.

In the light of increased living costs, benefits provided by the plans tabulated above do not appear to offer a realistic basis of negotiations in so far as minimum pensions are concerned. With respect to employees whose annual average compensation exceeds $3,000, the data offered by this study would seem to be a sound basis for management action in pension negotiations.

In connection with these tables, it should be noted that the benefits are computed for an employee with 30 years of *future* service. Because of differences in the benefit rate for earnings below $3,000 and above $3,000 per year, it was assumed by Bankers Trust Company that "during the 30 years of future service employees with average annual compensation of $1,200 and $3,000 did not receive for any prolonged period earnings at a rate in excess of $3,000 per annum,

and employees with average annual compensation of $5,000 and $15,000 always received earnings in excess of the rate of $3,000 per annum." In estimating the actual effects of private pensions, it should be kept in mind that under the conditions established for the computations in these tables, Social Security alone will provide an annual pension equal to 32.5 per cent of average annual compensation for the $1,200-a-year employee; 20.8 per cent for the $3,000-a-year man; 12.5 per cent for the $5,000-a-year man; and 4.2 per cent for the $15,000-a-year man.

Bankers Trust Company also reports that among the definite benefit plans, "about 74 per cent base the pension on compensation to the employee during each year of participation, and 26 per cent on the compensation in the final years of participation."

Money-purchase Plans

Despite the advantage of known costs to the employer, money-purchase plans have never been very popular. John M. Hines, Director of Group Annuities of Equitable Life Assurance Society of U. S., in a speech before the California Personnel Management Association reported that, "For the most part, such plans had been revised to a definite benefit basis." He added, "Any of you who might still have money-purchase plans should seriously consider such a change." Along the same line, the Bankers Trust Company notes that only one per cent of the new plans set up in 1946–1947 which they studied were of the money-purchase type, compared with 6 per cent of the plans established during 1943–44–45. It is to be noted, however, that while Bankers Trust Company did not include in its analysis any profit-sharing pensions, it did include seven combination plans in which the company guarantees definite benefits on a noncontributory basis and which

permit voluntary employee contributions on a money-purchase basis. So far as can be determined from the study, these combination plans were not classified as money-purchase type in the trend analyses.

Social Security Pensions

Statistics are not yet available, but periodic reports of new plans adopted in 1949 indicate that a substantial percentage include Social Security payments in the computed benefit scale. The extent of this trend cannot yet be seen, but the trend is very definitely present. For example, analysis of the principal provisions of the 289 plans reported by Bankers Trust Company shows that only 25 recognize Social Security in any way. All of the plans included in the report were either adopted or amended in the years of 1943 through 1947. In 15 of these plans, the full Social Security primary benefit is deducted from the computed benefits. In five more, half of the primary Social Security benefit is deducted. In the remaining five the computed benefit is reduced by something less than half of the primary Social Security benefit. The plan of a small arms manufacturer, for example, calls for deducting "½ primary Social Security benefit based on service with company." A petroleum company reduces the computed benefit "by actuarial equivalent of Social Security taxes paid by the company." (The quotations are from the report of the Bankers Trust Company and not necessarily verbatim from the plan.)

CHECK LIST ON AMOUNT OF BENEFITS

Negotiating Policy

1. Have you made it clear to the union that you will not give *final* agreement to any scale of benefits until it is possible to agree on *all* the features of a plan, so that the costs can be known accurately?

Minimum Pensions

1. Have you considered the advantages in terms of employee and public relations of setting a minimum monthly pension?
2. Do you want to control your fixed cost by setting up a minimum "definite benefit" plan, supplemented by a money-purchase plan based either on employee contributions or on profit sharing?

Basis of Benefits

1. Do you want the scale of benefits to reflect income, years of service, or both?
2. Do you want the scale of benefits to reflect average income, or income in the final years of employment before retirement?
3. How do you want to determine the number of years of past service to be credited?
4. What income level will be used in crediting past service?
5. Will you use seniority, number of full months of work, hours of work, or some other base in crediting years of future service?
6. Have you specified what types of pay are to be included in computing future service credit? (And have you *excluded* everything not specified?)

"Public" Benefits

1. Shall the computed pension include all, half, or none of the employee's Social Security benefit? If all or half, have you protected yourself against the employee forfeiting his Social Security pension by accepting covered employment?

2. Have you covered what you would do about Social Security in the event of retirement before a pensioner is 65?
3. Is there a clause under which the pensioner forfeits his retirement income if he applies for unemployment compensation? (This is especially important in states with experience rating.)

Payment of Benefits

1. Have you specified whether benefits will be paid on the first or the last day of the month in which they become due?
2. Shall the final payment be the one immediately preceding or following the pensioner's death?

SAMPLE NEGOTIATED CLAUSES ON AMOUNT OF BENEFITS

All employees covered by this contract are placed under the Pension Plan dated January 1, 1913, as presently administered.

Full time union officials shall continue to accumulate credits for their retirement based on salary received from the [union].

* * *

The Company agrees that effective as of the first day of January 1949 it will, from the date of his retirement and for the balance of his natural life, pay to each employee heretofore or hereafter retired, the sum of Eighty ($80.00) Dollars per month, less one-half of the primary benefits, if any, received by said employee pursuant to the provisions of the Social Security Act.

* * *

The acceptance of a pension allowance does not debar a retired employee from engaging in any other business which is not prejudicial to the interests of this Company, but he cannot reenter the service of the Company.

* * *

If Retirement Income payments amount to less than $10 per month, payment may be made quarterly; a single cash settlement may be made if Retirement Income payments will be less than $3.34 per month.

* * *

Those individuals who are requested to remain at work and who elect to do so will receive their pensions, in addition to their earnings and, as in the case of all retiring employees, a paid up Life insurance policy for $1,000. Other insurance benefits, if any, will be continued.

* * *

From any pension granted there shall be deducted the amount of any old-age income primary benefit or any other old-age, relief, disability, sickness or other payments that are payable by any federal, state or any other American or foreign governmental agency, or would be payable if such pensioner were unemployed, in the proportion to which this Company or any other employer or employers of such pensioner shall have made contributions thereto.

* * *

The benefits under the Social Security Plan are in addition to the pension provided by [the employer].

* * *

Retirement allowance shall be paid on the last day of each month from the time of actual retirement by the Trustees to the persons certified by the Committee, and shall cease with the payment due on the last day of the month in which his or her death occurs.

* * *

(*a*) If, during the one hundred and twenty calendar months next preceding the month in which the Employee shall retire, the Employee shall have been absent from work because of disability or layoff for one or more periods of more than three consecutive calendar months each, there shall be deducted from the total number of months which shall be used in so computing the average monthly compensation of such Employee the aggregate of the calendar months in excess of three in each such period of absence.

(*b*) If, during such one hundred and twenty months, such Employee shall have failed to work in more than twelve entire calendar months because of disability or layoff, there shall be deducted from the total number of months which shall be used in so computing the average monthly compensation of such Employee the number of such entire calendar months in excess of twelve.

(*c*) If both of the foregoing rules shall be applicable to any Employee, only the rule which shall yield the higher average monthly compensation for such Employee shall be used.

* * *

Each monthly payment of Retirement Income will be 1/12th of the annual amount purchased for the participant. The first monthly payment will be payable to the

participant on his Normal (or Early) Retirement Date, if he is then living. Subsequent monthly payments will be payable on the first day of each month thereafter, throughout his remaining lifetime, terminating with the last monthly payment prior to his death.

* * *

If an employee who is otherwise entitled to receive a retirement allowance remains in the active employ of the Company, or if such employee following his retirement returns to the active employ of the Company, then and in either of such events he shall not be paid the retirement allowance to which he is otherwise entitled during the period he is thus actively employed by the Company.

* * *

If a member is absent from active service with the Company for any reason (except military service as provided above) for a period of not less than one month nor more than twenty-four months, the time of his absence only will be deducted in reckoning his continuous service.

* * *

If a member makes fewer than 12 monthly contributions in any year, the retirement income purchased for that year shall be reduced proportionately by the number of months for which no contributions were made.

CHAPTER 8

ADDITIONAL BENEFITS

MANAGEMENT REVIEW

Pension demands by unions really involve more than just pensions in the sense of retirement income. Unions are also asking for special payments in the event of an employee disability, and payments to the employee's survivors at the time of his death.

The first question you want to ask yourself when you are faced with such demands is: "Am I already providing such benefits under group life insurance, group health and accident insurance, and hospitalization plans?" You might well discover that adding such features to a pension plan would merely be duplication of benefits you are already providing for your employees.

The second thing you want to ask yourself is: "Can I provide such benefits at lower cost by integrating them with the pension program, or by arranging them through separate policies or funds?"

As we shall see in the next chapter, there are a number of different ways of financing a pension program. However, some of these ways make it not only difficult but next to impossible to provide death benefits and disability pensions. Thus, by agreeing in advance to integrate such additional benefits with your pension program, you may find that so far as your financing is concerned, you are permitting the tail to wag the dog.

For large groups of employees, providing death benefits for employees prior to retirement is comparatively inexpensive through group life insurance. In some cases, it may be cheaper still if it is tied in with the pension program financed through the group permanent life insurance method. However, you will find that the amount of life insurance (death benefits) provided by this method varies directly with the amount of retirement income "earned" to date. Most policies provide $1,000 of life insurance for each $10 of monthly retirement income. So if you have a minimum pension of $100 a month including Social Security (about $60 exclusive of Social Security), you will be limited to $6,000 as the minimum amount of insurance you can provide. On the other hand, for groups of employees too small to qualify for group life insurance, integration with pension programs may be the most practical way to provide death benefits.

Providing disability pensions creates a far more difficult problem. The risks are so very uncertain that most insurance companies refuse to write such policies. So if you promise disability pensions, you may find that you have practically forced yourself to finance your pension through an uninsured trust fund. On the other hand, if you provide that a disability pension will be paid on the same basis as an early retirement pension, you may be able to handle it through an insured plan. The problem here is that the reduction in the amount of pension when retirement takes place before age 55 is so substantial that payments to the disabled employee will be almost meaningless. Then, too, the disability of the employee may well reduce his life expectancy to considerably less than that of a normal person at his age when disability occurs. Yet the reduction in the pension must be made on the normal actuarial basis and cannot take this factor into account. This means that the insured disability pension is generally a very small

one at a rather high cost. There are exceptions to any rule, of course, but in general the disability pension would seem to be limited to rather large companies that finance through uninsured trust funds. In other cases, the most practical solution would seem to be group casualty coverage for employees. While such coverage does not include a disability pension feature, it does provide a high degree of protection for employees in situations where the employer cannot afford to carry his own "disability pension insurance."

A death benefit after retirement is seldom provided as a regular feature of any type of pension coverage. If such a benefit is to be provided, it is almost always done through some form of permanent life insurance. Large, uninsured pension funds, of course, can provide this type of benefit, but even where such funds exist, post-retirement death benefits (if any) are quite frequently provided through a form of permanent group insurance which has a reduced value after age 65.

NEGOTIATOR'S REVIEW

Unions are generally including demands for disability payments in their pension demands. Demands for life insurance, accident and health insurance, and hospitalization and surgical benefits generally accompany pension demands, but as a separate proposal. The latter are generally grouped as "social insurance" or "social welfare" demands.

Almost without exception, union social welfare demands can be provided independent of a pension program, or even if there is no pension program. You may have to talk about them at the same time that you talk about pensions, but the two do not have to be wrapped up in the same "contract package."

Social welfare is not properly a part of pension bargaining.

Although the unions like a package deal when they can get one, they recognized in their proposals to the steel industry, by accepting the contributory principle on social insurance in the settlement with the steel industry, that the two things are essentially different. If you hope to be able to follow the pattern of the steel industry, and establish the contributory principle on either pensions or social insurance (but not on both), you would probably do well to bargain on the two as separate issues. However, there are possible advantages to treating both pensions and social welfare as a single item. By doing so, you retain control of the extent to which the two programs are to be integrated in their financing. This will give you some leeway in achieving lowest cost by integrating or not integrating as the circumstances may warrant. The thing you want to be careful of is that you do not commit yourself *in advance* to the specific means by which each program will be financed.

Disability Pensions

Disability pensions are potentially so expensive that any carelessly worded clause can wreck a whole pension program. Let's just see what happens when an employer agrees to a full pension in the event of a total and permanent disability. If an employee at the age of 30 is disabled, and the pension is $100 a month, you will have to pay out $100 every month for 35 years to this man, or a total of $42,000. Then you will still have the cost of providing this man's pension after age 65. The full cost of disability and retirement pensions for this worker would be enough to have provided him with a normal retirement income in excess of $550 per month.

The fact that you're not in a financial position to provide such protection does not eliminate the employee's need for it. So you are going to want to do something to help disabled

employees. There is one thing that costs you nothing to do: You can make available to a disabled employee an "actuarially reduced" pension. This will provide a fair degree of protection for men disabled after age 55. How much more you can do, of course, will depend on how much your company feels it can invest in this type of protection. And just how much protection can be afforded to workers who really need it per dollar invested will depend to a very large degree on how carefully you draw the disability clause. A poorly drawn clause that is subject to abuse or to over-liberal interpretation will deprive genuinely needy disabled employees of the protection you are paying to give them.

Therefore, you will want to draft your clause in such a way that the employee who is disabled by self-inflicted wounds, criminal negligence, or in the commission of a crime will not be entitled to a disability pension. You will want to provide, too, that disability pensions will not be paid to workers whose disability is adequately compensated by any accident or health insurance you may have in force. You may want to disallow disability pensions in cases where the disability is covered by Workmen's Compensation. (Particularly if you're a public utility, get your lawyers to check this Workmen's Compensation angle. One public utility got hauled up before the Public Service Commission on a charge of "wasting" corporate funds by supplementing Workmen's Compensation. While the company got no more than a verbal slap on the wrist, its disabled employees no longer receive supplementary payments in the event of compensable disability.)

There is one more thing you may want to exclude, although it can be made to look like treading on veterans' toes. If the experience after the last war is repeated, a fair number of ex-servicemen will collect government pensions for "service-connected" disability. It is a little difficult to see why an em-

ployer should be expected to pay benefits to an employee for a disability arising out of service in the Armed Forces, except possibly in the case of men employed by the company before the war and who returned to the company immediately after, so that their seniority was not interrupted.

After providing for exclusions, you will want to write the best possible definition of "permanent disability." There is no standard definition. Even the insurance companies cannot agree completely on a definition to use in their accident policies. However, the insurance companies do provide some useful hints on writing a fairly tight definition. The one thing you want to be sure of is that any disputes over whether or not an employee is permanently disabled will be settled by qualified physicians and not by an arbitrator.

REFERENCE REVIEW

Disability pensions, as such, are too new for any mass of reliable data to be yet available. With rare exceptions, the disability pensions provided in negotiated contracts are sufficiently limited by the age and service requirements as to be little more than "early retirement" pensions.

While other plans may be somewhat more liberal than the Ford plan, the Ford-UAW contract is a model of simplicity on the disability provisions: "Retirement for total and permanent disability after 30 years of credited service at age of 55 or older shall be at a flat retirement benefit of $50 a month plus any federal Social Security benefit receivable by the employee for disability."

When you consider that the Ford contract calls for normal retirement at age 65 after 30 years of service on a pension of $100 a month, less Social Security, it will be seen that the service of the disabled employee is sufficient to have guaranteed him the full pension at age 65. A pension of $50 a

month starting at age 55 is slightly more than the "actuarial equivalent" of a pension of $100 a month earned by age 55 which is not to start until age 65.

Table 8-1 shows actuarial equivalents of normal retirement pensions beginning at age 55 and running up to 65. It is to be noted that in each case the percentages are to be applied to the pension earned up to the point of retirement, and not to the pension that would have been earned had the employee stayed to normal retirement age. (For example, if your pension is 1 per cent of average pay for each year of service, an employee retiring at age 55 after 25 years of service would be entitled to a pension of 25 per cent of his average pay *if he waited until age 65 to start collecting it.* His actual early retirement pension would be 42.5 per cent of 25 per cent of average income. Under a flat benefit plan calling for $100 a month at age 65 after 30 years of service, with proportional reduction for lesser service, his pension would be 42.5 per cent of 25/30ths of $100.)

TABLE 8-1

PERCENTAGE REDUCTION IN EARNED MONTHLY ANNUITY FOR EARLY RETIREMENT

Age	*Males*	*Females*	*Age*	*Males*	*Females*
65	100%	100%	59	57.8%	63.0%
64	90.5	92.0	58	53.3	58.8
63	82.2	84.9	57	49.3	55.0
62	74.9	78.5	56	45.7	51.5
61	68.5	72.8	55	42.5	48.4
60	62.8	67.6			

Many insurance companies have developed such tables. Sometimes a single company will use as many as 10 different tables to compensate properly for the assumptions as to mor-

tality that must be made in varying situations. The insurance company that uses the table above regards it as "conservative, but the only one it is safe to use for approximation purposes without knowing all the factors involved."

To what extent can an employer increase the benefits of an actuarially reduced pension, to compensate for an expected decrease in life expectancy as a result of disability, without increasing his costs? One actuary says, "It would depend on the particular circumstances, but I should say by at least 25 per cent, and possibly by 50 per cent." Another reports, "A month ago I'd have said 20 per cent or even 30 per cent would be perfectly safe. But a study I just completed for a client makes me wonder. We tried checking back on all of the disability cases during the last 30 years. Obviously, we couldn't locate a lot of the men involved. But of those we could locate, and who have been disabled long enough to establish any mortality pattern, there seemed to be a very substantial indication that life expectancy following disability was fully as great as for the normal worker."

John M. Hines, Director of Group Annuities, Equitable Life Assurance Society of U. S., noted that "Where a union can get an actuary to support a contention that pension benefits can be increased 50 per cent with a slight additional employer contribution over the present insured plan, they will ask for it. *I might add they can find an actuary who will give them almost any answer they want.*" (Italics added.)

CHECK LIST ON "ADDITIONAL BENEFITS"

Social Welfare

1. Have you examined your present benefit program to be sure "extra" pension features would not represent duplications?

2. Have you worded clauses related to social welfare in such a way that the company has complete freedom of choice of providing them through integration with pensions or through separate programs, as cost may indicate to be more desirable?

Disability Pensions

1. Do you want to undertake an added expense for disability pensions, or do you want to limit such protection to "actuarially reduced" pensions (at no cost to you)?
2. Have you defined "permanent and total disability" to eliminate disability from self-inflicted wounds, criminal negligence, or criminal activities?
3. Do you want to exempt "service-connected" disabilities from coverage by your disability pensions?
4. Will qualified physicians rather than an arbitrator settle disagreements about disability?

Death Benefits

1. Will you provide death benefits before retirement?
2. Do you want to relate the size of the death benefit to earnings, to "earned" retirement income, or to some other base?
3. Do you want to provide post-retirement death benefits?
4. How will you determine the size of post-retirement death benefits?
5. Do you want to provide death benefits (either before or after retirement) as part of the pension program or through a separate program?

Beneficiaries

1. What provision have you made for the employee to name his beneficiary?

2. What provision have you made for paying the death benefit if the employee dies without naming a beneficiary (or if the named beneficiary is dead or does not claim the money)?

SAMPLE NEGOTIATED CLAUSES ON ADDITIONAL BENEFITS

If at any time the Committee finds the disability to no longer be total and permanent, it shall have the power to order discontinuance of the payments above provided.

* * *

A disability pensioner must permit the Committee to make, or have made by a physician designated by it, such examinations from time to time as the Committee may deem necessary, in order to ascertain the pensioner's condition, and if his condition and location do not prevent, he shall call on the Committee, or its representative, at such times as it may require, and he shall take proper care of himself, following the recommendations of the Committee or its representatives. A disability pensioner who fails to comply with these requirements shall forfeit his pension.

* * *

No member shall receive permanent disability benefits and at the same time be eligible for retirement benefits. If he is entitled to both, he shall receive the retirement benefit only.

* * *

Any employee receiving a disability allowance shall not be eligible to receive a retirement allowance. If an

employee has been receiving a disability allowance and the Committee finds that such employee is no longer eligible therefor and he is eligible under this agreement for a retirement allowance, the fact that he has been receiving disability allowances shall not make him ineligible for retirement allowances.

* * *

The Committee shall have complete and final power and discretion to determine the existence of dependency, to designate which dependent or dependents, if more than one, shall be paid, and to expend and deduct from death benefits necessary expenses connected with an employee's death.

* * *

In the event of the death of an employee or a disability pensioner resulting from an accident arising out of and in the course of employment by the Company, there shall be payable to his dependents, if any:

(*a*) A death benefit of six months pay but not exceeding $1,000 and in addition

(*b*) A pension payable monthly during dependency, but not exceeding 15 years, amounting annually to 1% of the employee's average annual pay during his term of service, multiplied by 22 if his term of service is less than 22 years and by his term of service if it exceeds 22 years.

In the event of the death of an employee or a disability pensioner resulting from a cause other than an accident arising out of and in the course of employment by the Company, if his term of service shall be as specified

below, there shall be payable to his dependents, if any: (lesser benefits specified)

* * *

Should death occur at any time prior to retirement, a cash settlement will be made equal to the total amount paid into the fund by the employee and by the corporation plus compound interest at the rate of 2%. However, if the cash settlement exceeds $2,000, and is adequate to provide an annuity of at least $120.00 per year, it will be used for the purchase of an annuity for a named beneficiary in lieu of a cash grant, unless otherwise directed by the employee during his lifetime.

CHAPTER 9

FINANCING

MANAGEMENT REVIEW

You can pay for a pension by digging down into your pockets and shelling out the money as payments become due. That's the expensive way to do it. It may look like the cheap way during the early years of a new pension plan, when relatively few employees are retired. But as more employees retire each year, the cost will increase. Assuming that the size of your company stays the same and that the same number of employees retire each year, the cost will level at the end of about 14.4 years.

A second way to do the job is to put up, on the day each employee retires, the amount necessary to pay this employee's pension for so long as he lives. Since employees retiring at age 65 will, on the average, live 14.4 years, the money you put up will draw interest for an average of 7.7 years before it is actually paid out as pension. Thus, the total amount you have to put up will be reduced by the amount of the interest earned. Assuming again that the size of your company remains unchanged and that the number of employees retiring each year remains unchanged, roughly, the annual cost of the two plans will equalize at the end of about 12 years. From there on out, the annual cost of "funding at retirement" will be about 10 per cent less than "pay-as-you-go."

The third way of financing pensions is to put the money aside as the pension is "earned" by the employee. That is, if

an employee 20 years old earns $2,000, and at age 65 is going to be entitled to an annual pension of $20 a year as a result of the work he did when he was 20 years old, you put aside the money necessary to provide that $20 a year *when the employee is 20 years old.* Even at 2 per cent interest, the money you put aside for an employee at age 20 will almost double by the time the employee is 65 and you have to start paying his pension. Your cost for such an employee would only be about half of your cost under a "funding at retirement" method. But employees age 64 are also accumulating pension credit, and what you put aside for them would have little or no time in which to accumulate interest. On the average, however, you would probably find that the money you set aside under the "full funding" method will accumulate interest for from 15 to 20 years. This would reduce your cost by from 20 to 30 per cent. (The figures cited may be considered "typical," but are subject to great variation because of interest rates, average age of employees, turnover, eligibility requirements, and numerous other factors.)

There is just one catch to this business of a fully funded pension. In order to get the advantages of its very low "normal" cost, it is necessary for you to start out by funding past service credit. Plans that do not give credit for past service (years when you were not setting money aside currently) are about as scarce as hens' teeth. From a practical point of view, any new plan set up at this time is almost certainly going to have to give credit for past service. So in addition to setting money aside to pay for pensions being currently earned, you have to put up all the money for this past service credit.

To say you "have to" put up the money for past service credit to get the advantage of current full funding may not be correct from a technical point of view, but it is from any

practical point of view. In making its proposals to the steel industry, the United Steelworkers (CIO) suggested that past service credit be "frozen." The Steelworkers urged that the companies merely compute the present value of past service credit and then pay interest on that amount without making any attempt to reduce the principal. The adjectives which conservative actuaries and industry spokesmen used in describing this proposal ran all the way from "unrealistic" and "illiterate" to "naive."

Funding Pros and Cons

Proponents of unfunded ("pay-as-you-go") plans generally make the claim that such plans are, in reality, funded through the company. That is, instead of investing the funds through a trust or through an insurance company, the funds are accumulated within the company in the form of working capital. The claim is made that the return on investment through the company will be significantly in advance of the 2 per cent or even 3 per cent one can hope to earn on the conservative investments made by a trust or an insurance company. The counter argument is that in such a situation there is no guarantee that the funds at any future date will be actuarially sufficient to provide the pensions earned. Furthermore, say the critics of unfunded plans, if the company goes out of business or runs so short of working capital that it is necessary to terminate the plan, retired employees will be left high and dry. Proponents of the unfunded plan have no choice but to admit this; some, however, deny that this is a valid argument. They adopt the position that a company has neither a legal nor a moral responsibility to continue paying pensions to retired employees after it goes out of business or otherwise becomes financially incapable of doing so. Obviously, every employer must make up his own mind as to what moral obligations he

is willing or wants to assume. But the new interpretation of pensions as "deferred wages" makes it look very much as though an employer does, in fact, have a legal obligation to pay for life the pensions that are earned during the existence of the plan.

Those who favor funding at retirement have adopted the attitude, either openly or tacitly, that by retiring or permitting himself to be retired at a given age, the employee thereby created a permanent obligation on the part of the company. The reasoning is that unless the employee had been *guaranteed* an income for life, he would have been unwilling to quit work. It doesn't require much of an extension of the same kind of reasoning to say that a man who takes a job at all thereby creates an obligation on the part of the employer to pay him whatever part of his normal pension he has earned up to the time the company goes out of business or terminates the plan. If you accept that argument, you are at the point where the fully funded pension is the only solution.

Methods of Funding

Broadly speaking, there are three ways in which a pension plan can be funded. The Bureau of Internal Revenue classifies these as (1) pension plans wholly insured by individual contracts; (2) pension plans wholly insured by group contracts; (3) self-insured pension plans. There are, of course, variations of each of these methods. Most, though not all, can be used for funding at retirement as well as for full funding. Lastly, there are numerous combinations of methods and variations that can be used. Determining which method will give the lowest cost in any given situation is a job for a pension expert. The mathematical calculations, while not impossible for the layman, are long and complicated. But more important is the

need for making sound actuarial assumptions. This is a job the layman just cannot do.

This does not mean that you should not take an interest in the way your plan is to be funded; far from it. You will want to know enough about the various ways of financing pension plans to be able to ask intelligent questions of whatever expert you rely on.

In the balance of this chapter, we're going to assume that you will leave actual details of pension financing to an expert; that what you want is a review of the principal features of the most common methods of pension funding.

Group Annuities

For a group of employees, usually not less than 50, you can pay an insurance company a certain amount of money today in return for which the company guarantees to pay each worker in the group so much per month beginning at age 65 for so long as he lives. Group annuities are usually sold on a "unit" basis—that is, you pay so many dollars for a unit of retirement income, usually $1 per month, beginning at age 65. How much you pay, of course, depends upon the age of the worker at the time you purchase the unit of benefit. The worker's age influences the cost in two ways: the younger he is, the greater the chance of his dying before he reaches the age of 65; and the younger he is, the more years the money will have to accumulate interest before it is necessary to start paying out. Because group annuity rates take into consideration the number of employees who will probably die before reaching age 65, they are said to be "discounted for mortality." If your plan is contributory the insurance company will require that at least 75 per cent of eligible employees join the plan.

Most group annuity contracts are written on what is called

a "participating" basis. That is, if the mortality assumption proves to be too high, you get a rebate from the insurance company. If, on the other hand, the mortality assumptions prove to be too low, then you have to pay an additional amount. For this reason, very conservative mortality assumptions are usually used, and you can probably expect some refund. (Keep in mind that these refunds cannot be made to the company in the form of cash. They can be used only to defray the cost of further annuity purchases.)

When a worker leaves your employ, you can get a rebate of 92 to 96 per cent of the premiums you have paid on his behalf. (Here again the rebate can only be applied to the cost of further annuity purchases.) If, however, the worker is fully vested, you can take no action at all, and when the employee reaches the age of 65 the insurance company will then pay him the amount which has been accumulated to his credit up to the time of his termination. It is to be noted that you cannot assume in advance that a certain number of workers will leave your employ before age 65. This is called "discounting for withdrawals," and in a nonvested plan means you are left holding the bag for the amount of the policy "surrender charge" every time an employee leaves.

Because benefits are purchased on a "unit" basis under a group annuity plan, it lends itself very well to pensions under which the retirement income is set as a percentage of each year's income.

> *Example:* You compute benefits on a straight "1 per cent times years of service" formula. You have 200 employees. Half are 30 years old, and each earned $2,400 last year. The total earnings for this half of your group were $240,000 for which the total pension to be paid starting at age 65 will be $2,400 per year or $200 per

month. In round figures, the typical group annuity premium at age 30 is $50 for each $1 of monthly income beginning at age 65. Thus the total premium for this group of 100 employees will be $10,000.

Now let's take a look at your other 100 employees. Say they are each 45 years old, and that half of them are earning $1,800 and the other half are earning $3,000 per year. The total income for the year of the employees in this age group is the same $240,000 that it was for the 30-year-olds. So for this entire group you will have to buy another $200 per month. But for men at age 45, the rate has now gone up to roughly $74 for each $1 of monthly income beginning at age 65. So the total premiums for the 100 employees aged 45 will be about $14,800. (Actually, some of the men in this group will be credited with more retirement income for this year's work than will others. Because of the "unit" nature of group annuity benefits, it is unnecessary to calculate the amount of retirement income to be purchased on a man-for-man basis; you need only compute the total for each age group.)

It will be noted from the above example that group annuity premiums increase as the age of the employees increase. In actual practice, what you find is that for some of your employees you are paying premiums at a very low rate, and for others at a rather high rate. This does not mean that your total pension cost will increase as the years go by. What actually happens is that you pay an over-all premium approximately equal to the premium you would pay if all of your employees were at the average age of those covered by the plan. (Not quite, because of varying mortality rates at different ages and the effect of compounding interest over long periods.)

What you generally do is to compute the total annual premium due as of the date the plan is established, and then pay at this same rate for 2, 3, or 5 years. At the end of the specified time, the rate is redetermined on the basis of your work force as it then exists, and necessary adjustments are made for underpayment or overpayment as a result of having continued the original rate.

While the administrative problem is slightly more difficult, group annuities can, of course, be used to provide benefits determined by formulas other than the percentage of income times years of service. The group annuity also affords a simple and direct way of funding past service credit.

> *Example:* Say you have an employee who is now 40 years of age and according to your formula is entitled to a retirement income for past service of $40 a month. You will want to fund this past service credit over at least 10 years. (We'll see why in Chapter 10 on Tax Exemption.) So starting at age 40 you will include in your group annuity purchase each year a monthly retirement income of $4 to be credited to the account of this particular employee (assuming a minimum 10-year funding period). The cost of the first year (when the employee is 40) will be about $258. Since the employee will be one year older as you purchase each successive installment of $4, the premium will rise gradually until the last one (when the employee is 49) will be about $335.

If you're using group annuities to fund a "flat benefit" plan, you work out the schedule of premiums in much the same fashion as in the example just cited on the past service credit. That is, for an employee at age 40, you figure that he has 25 years to normal retirement. So if his pension is to be $100 a month, you will want to figure this worker's share of the

group annuity as $100 divided by 25 years, or $4 of monthly retirement income each year. You will keep on paying gradually increasing premiums right up to the day on which this man retires. Your first premium for him would have been $258 and the last about $615. The total of premiums paid to provide $100 a month starting at age 40 would be about $9,850. On the other hand, if you start when an employee is only 25 years old, you have 40 years in which to purchase the $100-a-month pension. So for this employee, you need buy only $2.50 of monthly retirement income each year. In this case, the first premium, paid at age 25, would be about $111. Again, the annual premiums would increase gradually up to about $385 for the last unit of $2.50 purchased at age 65. Where you start at age 25, the total cost to retirement is only about $8,200.

If you have a contributory plan, there is one thing you should not overlook in connection with the use of group annuities. If the employee's contributions remain constant as his age increases (as they almost invariably do) you will pay a much larger share of the cost in the later years than you do for the early years.

Example: Say your plan provides for retirement income equal to 1 per cent of each year's compensation and that the employee is required to contribute 2 per cent of his wages. For employees who are only 20 years old, the cost of such a plan is approximately 3.3 per cent of the total payroll *of employees in that age group.* So for this group of employees, your cost is approximately 1.3 per cent of payroll. However, by the time employees are 35 years old, the cost of this same benefit formula has risen to approximately 4.7 per cent of the payroll of employees in the 35-year-old age group. You are now

> paying about 2.7 per cent of payroll. By the time employees are 60, the total cost of this benefit formula has risen to more than 10 per cent of the payroll of the 60-year-old age group. In other words, where the 20-year-old employee is paying more than one-half of the total cost, the 60-year-old employee is paying less than one-fifth of the cost. (The figures cited in this example do not take into consideration the need for returning contributions of employees who die before reaching normal retirement age. Nor do they take into consideration your loss in surrender charges on policies that must be canceled in order to return the contributions of employees who withdraw.)

Most insurance companies guarantee rates under group annuities for a period of 5 years. The policies once written, of course, are guaranteed for life, but additional units purchased after the expiration of the "guarantee period" may be at either a higher or a lower rate. It is to be noted that the guaranteed rate is applied to both the original participants in the pension program and to new ones who may enter during the guarantee period. Whatever change takes place in rates will apply to all employees, even though they were in the plan during the guarantee period. The insurance company will limit the amount of annuity that may be purchased for any one employee. The limit is set by a complicated formula, but in any event, the maximum will be less than $1,000 for each year of service, or a total of $20,000.

Deposit Administration

The most important variant of group annuity plans is called "deposit administration." Under this arrangement, the employer makes lump sum payments to an insurance company

at a guaranteed rate of interest. The money is not used immediately to purchase paid-up, deferred annuities but rather is all kept in a single fund. As each employee retires, there is withdrawn from the fund whatever amount is necessary to purchase the annuity to provide the worker's pension. The actual premium rate paid for the annuity is the same as the rate on the final unit (at age 65) purchased under an ordinary group annuity plan.

Annual deposits may be calculated on the same basis as you calculate the annual premiums on standard group annuities, with one important exception. Under deposit administration, it is possible to discount in advance for withdrawals. By anticipating the percentage of your employees in each age group who will terminate service before reaching retirement, you avoid the payment of surrender charges to recover premiums paid when the employee leaves. With a high-turnover group, this can be a very substantial amount. It is particularly noteworthy that by not having to fund past service credit for employees who presumably will leave before retirement, you can effect a marked reduction in the funding cost during the initial years. (Actually, total funding costs will be the same, except for surrender charges, with either a straight group annuity or deposit administration plan. The difference is in timing: Withdrawals will cause funding costs to drop after the first year under straight group annuity plans; if your assumptions about the withdrawal rate are accurate, the cost will be uniform under deposit administration.)

Deposit administration is particularly useful where the amount of retirement income cannot be accurately determined in advance. Plans in which the pension is based upon a percentage of final income or a flat benefit, or where the retirement income is to include Social Security are handled quite easily through deposit administration.

Note that the insurance company does not guarantee the payment of any specific amount of retirement income at the time the deposit is made. The company merely guarantees a rate of interest on the deposit from the day it is made until the day it is withdrawn to purchase an actual annuity. Once the annuity is purchased, however, the insurance company does guarantee the payments for life.

Individual Annuities

Where the group of employees to be covered is too small to permit the use of group annuities, individual annuities are frequently used. In this case, an individual contract is purchased in the name of each worker to be covered, and the premiums are paid on the level annual basis. That is, each year's premium is exactly the same as the first premium, right up to the day of retirement. The premium rate is determined by the employee's age at the time the policy is written. Obviously, it is not possible to discount such policies in advance either for mortality or for withdrawal.

Most individual policies provide for retirement income in units of $10. Thus, at the time a policy is written you can try to forecast the total amount of retirement income to be due a worker at age 65. Otherwise, you can purchase additional policies starting at a higher age, when the rate is higher. Many contracts provide that additional units may not be purchased after age 55 or 60.

With the straight individual annuity, the only death benefit is a return of the premiums paid. However, some insurance companies will not issue such a policy except to workers who cannot pass a life insurance examination. For insurable workers, these companies insist that a moderate amount of life insurance be taken out in conjunction with the annuity. The amount required is generally either $500 to $1,000 for each

$10 of monthly retirement income. This provides a substantial death benefit in the early years (where the death benefit of the pure annuity is low) at a rather modest cost (because the increasing accumulation of premiums of the annuity acts as an "offset" to the face value of the insurance).

Particularly in the early years, cash values of individual annuities tend to be rather low. Consequently, there is a considerable loss to the employer when the employee terminates or withdraws from the plan. For that reason, individual annuities are usually used only where an employer can reasonably anticipate a very low withdrawal rate. It is difficult to know how to distinguish cause and effect, but it may be because the employer stands to recover relatively little on the contract in the event of employee withdrawal that such a large percentage of individual contract plans provide for vesting. As an illustration, an employer might be able to recover only $200 to $500 out of $1,000 paid in premiums for a certain employee. If the policy reverts to the employee at the time of his withdrawal, he stands to gain considerably more than $1,000 by keeping the policy in force, because both past and future premiums will be based on his age when the policy was issued.

Although it is not absolutely necessary, it is customary to set up a trust in connection with the use of individual annuities. The reason for this is that if the policies were delivered by the insurance company direct to the individual it might be possible to either cash them in or to borrow against them. In either case, you might be laying yourself open to claims for overtime under the Wages and Hours Law, since the payments you make to the insurance company would have the effect of putting immediate cash in the hands of the employee. Then you would have to include your pension contributions in the computation of overtime pay.

It is a very simple matter to name either a trust company or an individual trustee who will hold title to the policies under a trust agreement until the employee retires, leaves your employment, or dies. This is not a "trusteed plan" in the usual sense of the word. While a trust is created, the trustee or trustees are not involved in the actual financing of the plan. From the financial angle, the plan is fully insured, and the insurance company guarantees and takes full responsibility for meeting payments as they become due.

Group Permanent Insurance

Group permanent insurance is very like the setup described above where the individual policy is issued in conjunction with the individual annuity. The significant difference is that the group insurance is issued to cover automatically all employees in the plan and is issued without physical examination. Insurance companies usually require that at least 50 employees be covered and that the total face amount of insurance exceed $250,000.

Most group permanent policies provide for $1,000 of insurance for each $10 unit of retirement income. Some insurance companies have made group permanent policies available on the basis of $1,000 insurance for each $20 of monthly retirement income, and at least one company is reported to have recently issued a policy on the basis of $1,000 for $30 of monthly income. (Any ratio is possible, of course. Using a smaller ratio merely means a readjustment of rates to permit a much faster build-up of the cash value in relation to face value of the policy.)

Premiums for group permanent insurance are set on a level annual basis, and once a policy is issued the rate is guaranteed for that policy. If additional units are to be purchased, however, they have to be purchased with a rate as

of the employee's attained age. The whole rate structure is subject to revision by the insurance company at the end of each 5-year period.

It probably won't bother you as far as rank-and-file employees are concerned, but if your executives are to be included in a group permanent plan, you will have to watch out for the limits that are set on automatic coverage. The formula for determining these limits is complicated and relates the maximum automatic coverage to both the total amount of insurance in force under the contract and the minimum amount of insurance issued to each of the 50 employees with the largest amount of insurance. But just because you might not be able to provide the full amount of insurance and pension for some of your employees under a group permanent plan, you are not barred from using it up to its available limit. What you have to do is to purchase individual annuities to supplement the income under the group permanent plan.

Cash values to the company in the event an employee withdraws during the first 10 years of coverage under a group permanent plan are low, largely because the cost of insurance is the first charge that must be made against the premiums paid. As a consequence, group permanent insurance can be a very expensive proposition where the withdrawal rate is high.

> *Example:* Say one of your employees becomes eligible at age 25. You would probably purchase for him the first unit of $10 of monthly income and $1,000 of insurance. The premium would be about $29.50. If the employee quit at the end of one year, you would be able to get back only about $15. So you would be out $14.50. If the employee stayed 5 years before leaving, the difference between the premiums you paid and the

cash surrender value of the policy would be about $45.

It is not uncommon for a company to provide that additional units of retirement income will not be provided through a group permanent plan after age 55. What is done in such cases is to purchase the additional units of retirement income on a straight retirement annuity basis.

Uninsured ("Self-administered") Trust Funds

Plans financed through pension trust funds are perhaps most frequently referred to as "self-administered" trust plans. That name is hardly an accurate description. Sometimes the employer administers the fund, but more often than not it is administered by a trust company, by an independent trustee appointed especially for the purpose, by the union, or jointly by the union and the company.

Others refer to this type of financing as a "self-insured" plan. Here again we have a misnomer. To insure something is to give an unconditional guarantee of delivery. Few, if any, pension trust funds give the employee a written guarantee, enforceable against the assets of the company, to deliver the promised pension. (Although this is, in effect, what you are doing when you accept an employee's contribution. But the guarantee is only up to the amount of the contribution.) From the employee's point of view, then, his only "insurance" on a pension from a trust fund is the personal integrity of the men who establish and manage the fund. This is not to say that some trust funds are not fully as safe, from the employee's point of view, as any insured plan. But faced with the recent experience of the members of the United Mine Workers Union who had their pensions cut off as a result of the failure of an ill-conceived fund, the employee has a right to question.

The only realistic name by which you can call a plan financed through a trust fund, regardless of who establishes it, and regardless of who administers it, is an *uninsured* plan.

The uninsured plan has one great advantage over all others: flexibility. You can tailor an uninsured plan to do almost anything you want to. As a matter of fact, that is also its great weakness. You can do so many things with it that you can go a long way toward hiding the real cost from anyone but an expert. The two things you have to keep in mind constantly with an uninsured plan are that you cannot pay out more dollars than you pay in (plus interest) and that the fund has to be sufficient to make good any losses or unexpected expenditures. With an insured plan, the insurance company won't let you forget those two points. With an uninsured plan, remembering becomes *your* responsibility.

The mechanics of an uninsured plan are relatively simple. You name a trustee. This trustee can be an individual, a group of individuals, a corporation, or a trust company. You put the trustee in charge of a fund and tell him to invest it, either as he sees fit or within certain restrictions you prescribe. (For example, you can require that a certain portion of it be invested in U. S. government securities and that none of it be invested in securities of your corporation or of any of your competitors.) You also authorize this trustee to make payments from both the income and the principal of the fund to your employees and ex-employees according to the rules set forth in the plan. Then you turn over to the trustee each year or each month a certain amount of money. Sometimes the amount you turn over is determined by a formula agreed upon when the plan was set up. Sometimes you merely promise to "make contributions from time to time to the pension fund in an amount sufficient, based on estimates made

by a duly qualified actuary, to provide the benefits specified." (There are numerous ways of saying the same thing. The quote is from the Ford Motor Company plan.)

This, of course, is where the trouble starts. Let's say your contribution to the fund is determined by some fixed formula. If the actuarial estimates on which the formula was based are not sufficiently conservative, a point will be reached beyond which it will no longer be possible to pay the promised benefits. What do you do then? Reduce the benefits or up the ante? The choice is not a pleasant one. On the other hand, the formula may be overly conservative. And the fund may build up to where it is actuarially larger than necessary to provide the promised benefits. As a practical matter, you'll be faced with one of two choices: You can increase the benefits, or you can reduce the amount of your contribution and pay out the difference in the form of a direct wage increase.

Because of the continuing improvement in mortality in the United States, it seems doubtful that many funds will run into the difficulty of being too large. The trouble is, even a fund that is actually too small looks too large. If the pension is to be fully funded, some of the money that is placed in the fund may stay there and earn interest for as long as 55 or 60 years. At any given time, there must be enough money in the fund to pay to every employee in the company the full amount of the pension earned to date. That can look like an awfully big hunk of money (in the case of the American Telephone and Telegraph Company, it's over $1 billion). To someone who does not understand the actuarial necessity for having such a fund on hand, it can lead to the conclusion that there is plenty of money available to pay increased benefits. The point to keep in mind, and the point to try and get across to anyone who suggests larger benefits, is that the amount of money in your fund is no larger than the amount of money

that would be in the hands of an insurance company in the form of previously paid premiums if you were buying the same benefits from an insurance company. Don't accuse your union leaders of lacking intelligence just because they continue to demand an increased scale of benefits after you have explained this to them.

They may well simply be reacting to political pressure from the membership. You may recall that Congress found itself in somewhat the same position over the Social Security fund. The original Act called for contributions to increase from 1 to 1½ per cent in 1941, but by that time the accumulation from the 1 per cent contributions had grown so large as to be a source of political embarrassment to Congress. So despite the advice of competent actuaries that even at the 1½ per cent rate the fund would be too small by 1965 or 1970, Congress passed a resolution preventing the new rate from going into effect. The only thing that saved the Social Security fund from being in serious trouble by now was the tremendous expansion of personal income during the war and postwar years—more dollars on which to collect the 1 per cent tax to pay a scale of benefits related to 1937 level incomes. But we're going to have to pay the piper now. The rate on Social Security was increased to 1½ per cent on January 1 of this year and will rise to 2 per cent next year. And if Congress comes out with a revision of Social Security that's anything like the bill passed by the House of Representatives in 1949, the scale of taxes will rise very rapidly to 3 or 3½ per cent each for the employer and the employee. The situation is very much the same with private pension plans.

Obviously, you don't want to get into a pension plan without having some idea of what it is going to cost you. With an insured plan, representatives of the insurance company can take out a rate book, a schedule of your employees showing

how many there are in each age group and what the total earnings are in each group, and in a reasonable time can give you a rough estimate on the cost of any of several simple pension plan formulas (none discounted for withdrawals). How do you get a rough estimate for an uninsured plan?

It sounds almost too absurdly simple, but you can find out what the plan you are thinking of would cost through an insurance company, and assume that it will cost you just exactly as much through an uninsured trust fund. That's a pretty good rule of thumb if your contributions to the fund are to be "actuarially determined from time to time" rather than according to a definite formula. On a formula basis, this might result in the fund actually growing too large, because insurance companies necessarily make conservative assumptions in setting rates. While the insurance company can return these "overpayments" through dividends on participating policies, based on actual experience, such refunds will not be available to you when you contribute to a trust fund according to a formula. If, however, your contributions are an "actuarially determined amount," you can afford to make your initial contribution on the basis of insurance company rates in the sure knowledge that you will get a "rebate" in terms of reduced future payments when the first actuarial review is made on the basis of experience under the plan.

More complete instructions and the necessary tables for making reasonable approximations for contributions to a trust fund will be found in Appendix 8.

Of course, if you want to pay disability pensions out of your trust fund, then the sky's the limit. No one has yet been able to devise a satisfactory table of the incidence of permanent disability from all causes for various ages, nor are there any satisfactory statistics showing life expectancy for various

ages of permanently disabled people. Lacking such data, an actuary can do no more than make a hopeful (or pessimistic) guess at the cost of disability pensions.

Although it is less common than with insured plans, it is perfectly possible to give an employee a vested right in an uninsured fund. Early retirement can be provided for on either an actuarial basis or on the basis of an arbitrary schedule of income reductions. If the company (and therefore the fund) is large enough, it is even possible to provide life insurance for the employees through the fund. Normally, any death benefit that may be provided through the fund is nominal; larger amounts are handled through group life insurance.

Ordinary Life Pension Trust

The ordinary life pension trust provides an annuity, insured from the date of retirement, based on the cash value at retirement date of an ordinary life insurance policy plus the accumulations in an uninsured trust fund. Since the ordinary life insurance policies can be issued on either a group basis or individual basis (with physical examination), the plan can be used for any sized group.

The trustee purchases ordinary life insurance for each employee (or for all employees). The cash value of each policy at age 65 is known, so it is possible to determine the amount which must be in the auxiliary fund to add to the cash value of the life insurance policy in order to be able to purchase the desired amount of annuity. Contributions to the auxiliary fund are determined in much the same manner as are contributions in a deposit administration plan. Thus, if you know that the cash value of the policies of all employees becoming 65 in a given year will be $100,000 and that a total of $250,000 will be needed to purchase the retirement

income provided by the plan for those employees, you know that between now and that date you will have to contribute to the auxiliary fund an amount which, when interest is added, will equal $150,000.

The rates on the life insurance policies are guaranteed as of the date they are written, and are on an annual level premium basis. Furthermore, the life insurance policies may contain a change-of-plan clause which permits them to be converted to annuities at rates guaranteed when the policy was first issued. It has been the practice of some companies to guarantee an annuity rate on $10 of monthly income for each $1,000 of face value on the life insurance. Of course, it is possible to adjust income to more than $10 a month per $1,000 of insurance by planning contributions to the auxiliary fund accordingly. In such an event, rates on the annuities to be purchased are not guaranteed.

The insurance part of this type of an arrangement has a very low cash value in its early years; consequently it is rather inexpensive for the employer to vest the life insurance policy in the employee. On the other hand, a very substantial portion of the employer's contribution has gone into the auxiliary fund, where it may be used to defray expenses of remaining employees in the event of withdrawals. In addition, while a very substantial death benefit is provided for the employee before he reaches retirement, it is possible for the employer to discount in advance for mortality his contributions to the auxiliary fund. He can discount or not as he chooses for withdrawals.

It should be noted that the trustee handles funds to the extent of making the investments and making payments to the insurance company for life insurance policies and for annuities on retirement date. No benefits are paid directly from the fund itself.

"Money-purchase" Plans

As we saw in Chapter 7, the money-purchase plan is one in which no benefits are guaranteed, but in which the employer merely promises to pay a certain amount of money, a certain percentage of payroll, or a share of profits each year to buy retirement income for eligible employees. The money-purchase plan does not lend itself to any funding method that involves fixed annual premiums. A certain percentage of payroll, or any other arbitrary amount, might permit you to make the first annual payment on a given number of policies under a group permanent plan, but you have no assurance that the amount determined by the money-purchase formula will be sufficient to continue paying premiums on those policies next year. For that reason, with a money-purchase plan you have to eliminate the possibility of financing through group permanent insurance, through individual annuities (except where purchased in the rather rare single-premium form), and probably the ordinary life pension trust. The qualification is added to the last item because some money-purchase plans are modified to the extent that there is a guaranteed contribution sufficient to pay the premiums on insurance. The balance of the contribution is on a genuine money-purchase basis and goes into the auxiliary fund to be used at retirement to supplement the annuities purchased with the cash value of the insurance.

Group annuities lend themselves rather well to the money-purchase formula. Deposit administration and uninsured trust funds, however, are ideally suited for this purpose.

NEGOTIATOR'S REVIEW

It's almost a certainty that unions will demand uninsured plans, with the fund under the control of a board of trustees

on which the union has equal representation with management. Until a few years ago, most unions—if they took a stand at all—favored insured plans. The reason was, of course, mistrust of the employer. Without any way of demanding an accounting of the employer, the only way employees could be certain that the benefits would be paid was to have them guaranteed by an insurance company. The feeling was so strong that the Amalgamated Clothing Workers—with a wholly union-administered plan—went so far as to set up a new insurance company, the Amalgamated Life Insurance Company. ACW buys its benefits from this insurance company on the same basis it would from any insurance company. The advantage to ACW is that Amalgamated Life has only one stockholder—ACW. However, Amalgamated Life must operate under exactly the same rules that apply to any New York State insurance company dealing in group insurance. Both the union and the employers were faced with an unusual situation in the men's clothing industry, and it seems unlikely that such funds will be established in the future.

Now that pensions are in the field of compulsory collective bargaining, unions can assure themselves that benefits will be paid either by having the plan financed through an insurance company or by getting joint representation with management on the board of trustees of an uninsured fund. While the former provides a better guarantee of benefits to workers, the latter gives the union a better opportunity to claim that pensions are being provided by the union as the result of a "victory" over the company, rather than by the company.

The United Auto Workers is disarmingly frank in stating an additional reason why unions want jointly administered uninsured plans: "Placing continuing authority and responsibility on board of trustees assures that program will be flexible in meeting changing conditions. *Adjustments can be made*

in the program as governmental programs develop or to meet unforeseen developments." (Italics added.) Obviously, if the board of trustees can make "adjustments" in the program, it will never be possible for an employer to know where he stands with regard to cost.

This does not mean that it is necessary to avoid the uninsured plan; it simply means that if there is any possibility of your setting up such a fund, you want to be particularly careful in setting forth the responsibility of the board of trustees. (More will be said about this problem in Chapter 12 on Administration.)

Actually, it should make no difference to the union how the plan is funded, so long as the funding is actuarially sound and the benefits can be guaranteed. With pensions pretty well established as "deferred wages," you probably won't get a strong union to settle for anything less—the attitude will be that "wages" must be paid; that a pay-as-you-go plan does not guarantee such payment.

To the largest extent you can, keep out of the contract any commitment as to the method of funding. Even if you are doing no more than guaranteeing continuation of your present plan in the collective bargaining contract, word the clause in such a way that you are not limited to the present method of funding—experience may indicate that a method other than the one originally specified will be less expensive. (One company cut its costs twice by changing from deferred group annuities to an uninsured fund, and then later to deposit administration. No change was made in any other feature of the plan.)

One way to handle the problem while retaining the necessary flexibility is to provide in the contract for a trustee or board of trustees to receive the contributions and to use such moneys "to purchase insured contracts in such amounts as

may be required to provide the benefits specified herein, or to invest such moneys in a manner to be prescribed and to pay from the corpus and income of such accumulation the benefits specified herein, as may be directed by the company in its sole discretion." Keep in mind that while some forms of insurance do not require the use of a trustee, there is nothing to prevent one. Some companies use a trustee with insured plans simply to remove any doubts on the part of employees (and the Bureau of Internal Revenue) that there is any possibility of the company getting back any of its contributions.

Possibly your toughest job will be negotiating the clause covering the amount of the company's annual contribution. The union will probably demand a minimum annual guarantee (remembering that many workers accused the UAW of a sell-out in 1947, when it submitted to the membership at Ford a plan which contained no definite promise of any specific amount of company contribution). At the same time, the union will demand assurance that contributions will be large enough to guarantee the specified benefits (knowing full well that the minimum or guaranteed contribution may not be large enough to provide the benefits at some future time).

Ford finessed this point beautifully in its new contract with UAW. It agrees to pay "8¾ cents per hour" and then goes on in the next sentence to say "it (the company) may vary these payments [according to estimates made by a duly qualified actuary]." The union has its talking point—8¾ cents an hour. The employees have a guarantee that the pension plan will be actuarially sound. And Ford has a guarantee that it will be called on to do no more than underwrite the specified benefits.

You could do a lot worse than copy the Ford clause (adjusting the 8¾ cents per hour to some reasonable actuarial estimate of the cost of your plan). The key point in the Ford

clause, as it should be in yours, is that the contributions are limited to the amount necessary to provide the *specified* benefits. You are protected against the claim that the fund is big enough to provide additional benefits or benefits larger than those specified—the contributions were determined as adequate to provide the specified benefits and nothing more.

If the contract limits you to an insured plan, your contributions will automatically be limited (unless you provide otherwise) to the net premium payable each year to guarantee the specified benefits.

One thing you want to be sure of: Don't get tangled up in promises to fund through individual contracts, group permanent insurance, or an ordinary life pension trust until you are satisfied that your eligibility requirements will eliminate any high-turnover groups. Employer losses when policies of these types have to be canceled are so high that the cost of the plan may be prohibitive in any but a very stable group. *This is particularly important in the small company.* Where few employees are involved, group plans and uninsured trusts may be out of the question. Limited to individual contracts (sometimes an ordinary life pension trust) by the very nature of the size of the operation, cancellations resulting from withdrawals can be the most expensive part of the whole plan.

One of the things that will make any pension plan expensive in its early years is funding past service credit. The chances are that the decision on whether or not to fund past service credit will be made by topside management or by the board of directors—and that the men at the bargaining table will have to live with that decision, however much or little they may like it. The problem is to get the union to accept it, and, obviously, there is no standard solution to that. The individual negotiator is the only man who knows the situation well

enough to be able to plan the bargaining strategy. But the decision on whether or not to fund past service credit will place some limitations on the method of funding.

For all practical purposes past service credit can be funded only through annuities or through an uninsured pension trust fund. So unless you want to go into a plan that uses a combination of funding methods (and there's really no reason why not, unless you are particularly anxious to minimize the administrative problem), you should limit your choice for the whole plan to annuities or the uninsured fund. Certainly you won't want to limit yourself to any method involving life insurance.

One thing you are going to have to watch with an eagle eye is the matter of who holds title to the policies in the event you use a funding method involving individual contracts. If the labor agreement specifies the use of individual contracts, it should also clearly provide that title to the contract will be held by a trustee. You don't have to say much more than that; all of the details will be included in a trust indenture (an agreement between the company and the trustee) that your company lawyers will draw up. If you don't do this, you may find yourself in trouble with the Wage-Hour Law: If the title to the policy rests in the hands of the employee, then the premiums may constitute a part of regular wages and have to be included in any overtime computation.

Whether or not your plan is contributory may have an influence on the funding method you select. Returning the full amount of employees' contributions in the event of withdrawal can be extremely expensive in the case of a plan involving some form of life insurance. For the sake of illustration, let's say you have started to buy just one unit of group permanent insurance for an employee who is 25 years old and who is contributing $1 a month. The first premium is roughly $30,

of which the employer will have to pay $18 and the employee $12. If the employee leaves at the end of the first year, the cash value of the policy is about $15. Of this, $12 is returned to the employee. The net recovery by the employer will be $3, or one-sixth of the amount necessary to pay the employer's share of the next year's premium for another employee of the same age. (In a noncontributory plan, the recovery would be $30 less $15, or $15; one-half of the amount necessary to pay the next year's premium for another worker of the same age.) Percentagewise, the effect of withdrawals in a contributory plan, in this particular situation, is three times as great as with a noncontributory plan.

In some plans, and particularly those involving the use of term life and other forms of insurance not involving reserves, the employee's entire contribution is not refunded on withdrawal. It is legitimate in these circumstances to deduct part of the employee's contributions as a charge against the insurance premium. However, even with the help of the union it will be difficult to convince younger members of the group that each is getting the full value of his contributions. No generalization is possible; you will have to weigh the various considerations in the light of your own particular industrial relations situation.

REFERENCE REVIEW

A release from the Bureau of Internal Revenue provides a tabulation of the method of funding of 6,862 pension plans which had been granted tax-exemption status up to and including August 31, 1946. This tabulation is shown in Table 9-1. While the largest number of plans are insured by individual contracts, such plans account for only a small percentage of the total number of participating employees in all plans. And while "self-insured" pension plans account for less than

10 per cent of the total of all plans, the number of employees covered by such plans is more than 60 per cent of the total.

TABLE 9-1

PENSION PLANS BY TYPE OF FUNDING *

Type of plan and method of insurance	*Number of plans*	*Number of participating employees* †
Pension plans wholly insured by individual contracts	4,144	203,395
Pension plans wholly insured by group contracts	1,476	889,184
Self-insured pension plans	658	1,908,111
Pension plans insured by combination of methods, or method not stated	584	289,918
Total	6,862 ‡	3,290,608

* Pension plans with respect to which favorable rulings were issued as to qualification under Section 165(*a*), processed through August 31, 1946, as reported by the Bureau of Internal Revenue.

† "Represents employees covered by the plan at the date as of which information was submitted in connection with application for ruling on the plan. Includes all employees nominally covered under the plan even though a large number of such employees may never receive any benefits under it."

‡ "Includes 47 plans combining pension and profit-sharing features."

The Bankers Trust Company, in its study of "289 Retirement Plans," analyzes the method of funding according to the number of participants in the plan (Table 9-2). In comparing this table with Table 9-1 based on data from the Bureau of Internal Revenue, it should be recognized that none of the plans analyzed by Bankers Trust Company cover less than 150 employees. This factor, rather than any other, probably accounts for the very low percentage of individual policies and the high percentage of trust funds indicated in the Bankers Trust Company's tabulation.

TABLE 9-2*

Percentage of plans by method of funding	*Plans classed by number of participants* 5,000 and over	1,000 to 5,000	500 to 1,000	150 to 500	Total plans
Pension trust	52%	50%	58%	47%	51%
Group annuity contract	19	32	28	38	31
Individual policies ..	..	3	8	7	4
Group permanent ..	2	3	1	3	2
Combination of pension trust and insured methods ...	13	4	5	1	5
Combination of insured methods ..	..	3	..	3	2
Unfunded	12	4	..	1	4
Funding method not known	2	1	..	..	1
Total	100%	100%	100%	100%	100%
Number of plans..	48	94	67	72	281 †

* Bankers Trust Company.
† The size of eight plans is not known.

Insured versus Uninsured Plans

In making their demands for plans financed through uninsured trust funds, unions base their case on four points. All center around a contention that it is possible to pay more benefits per dollar of contribution through an uninsured trust fund than it is through an insured plan.

1. Administrative expenses of an uninsured plan, say the unions, are significantly lower than for an insured plan.

Comment: This will depend on the individual situation. Even for a given company, it is frequently difficult

to tell in advance the administrative cost of an uninsured plan. This problem will be discussed in more detail in Chapter 12.

2. Actuarial assumptions used by the insurance companies in determining premium rates, say the unions, are too conservative. Murray W. Latimer, the CIO's pension consultant, in his famous report on "Retirement Funds for Newspaper Workers," summed up the union argument like this: "Generally speaking, the insurance companies follow the policy of calculating costs on a basis such that, as a practical matter, the only possible deviations are in a downward direction."

Comment: It is possible to use any of a number of mortality tables in estimating pension costs. The effect of using different tables may be seen in Table 1 of Appendix 8. What Mr. Latimer says is true: Insurance companies generally use a very conservative mortality assumption. What Mr. Latimer did not go on to say was this: If actual experience proves that the assumptions were too conservative, then the employer will recover all or a major part of the "overcharge" in the form of dividends. Thus, the ultimate cost of an insured plan (and an uninsured plan) will be based not on the assumptions made at the time the plan is set up, but on the actual mortality experience of the employees.

3. Uninsured plans, say the unions, make it possible to discount in advance for withdrawals and thereby avoid the cost penalties that result from withdrawals under an insured plan. (This particular objection, of course, is not leveled against deposit administration plans, under which it is possible to discount in advance for withdrawals.)

Comment: On its face this claim is perfectly true. Where you run into trouble is trying to predict the withdrawal rate at some future time. In making pension proposals, most unions have assumed that the percentage of workers of any age who withdraw in the future will be the same as it has been in the recent past. Such an assumption is likely to result in a gross underestimation of cost for two reasons: (1) Turnover at all ages in recent years has been particularly high as a result of war and postwar dislocations; (2) historically, turnover at all ages is reduced when a company establishes a pension plan.

4. The "loading" for contingencies provided in insurance plans, say the unions, is unnecessary. Most union pension proposals have included no provision for contingencies. That is, the cost is calculated purely on the basis of actuarial assumptions and assumed investment yields.

Comment: Insurance companies generally add about 5 per cent to actuarially calculated premiums on pension policies to cover possible losses if employees live longer than was anticipated or if the insurance company's investments do not yield the guaranteed rate of interest. With an uninsured plan, it is still more important to provide for contingencies. You must cover not only the possibility of employees living longer than you expected, and low yields, but also the possibility of administrative expenses being higher than expected, and the number of withdrawals being less than assumed. It is to be noted, too, that investment losses are far more important in the individual company fund than to an insurance company; the size and diversity of the investment portfolio of an insurance company tends to minimize the effect of any

single loss. One loss can put a major dent in a private fund. The smaller the company the greater is the need for a sizable contingency reserve.

Just as all unions are not opposed to insured plans, not all management is in favor of them. The case on behalf of insured plans was stated very well by William G. Caples, Manager of Industrial Relations for the Inland Steel Company, in his testimony before the Steel Industry Board:

> "There is no one in this room who does not know that the moneys which are taken to pay for protection when it is bargained will be taken from the man's wage, whether he knows it or not . . . .
>
> "If the union employees are to understand that an equivalent wage is being put into a pension fund, they want to be assured that they will derive benefit from that pension plan. It is of no solace to the individual employees to know that their equivalent wage has gone to provide pensions for employees who have retired before them. They should be entitled to know that when the time comes for them to retire, moneys will be assuredly on hand for their own pension benefits. . . .
>
> "Inland maintains that a pension plan, if adopted, should be an insured pension plan insured with a large insurance company. We consider these pension promises to be of the greatest importance to our employees and to us. If we make pension promises, we want to know that the promises will be fulfilled without question. Bear in mind the employees will look to us, not the union, to see that they are fulfilled and any failure will be laid at our door, not the union's. This means that they should be guaranteed by an institution financially stronger even than the strength of Inland. Some of the large insurance

companies are in a position of strength to provide those guarantees."

Comment: From its start (1936), the Inland Steel plan has been operated on the basis that a pension is neither a handout to retired employees nor a bribe offered to elderly employees to remove themselves from the work force, but rather a definite promise to pay made to each employee covered by the plan. The foundation of this promise is recognition that pension costs are, in fact, withheld from the employee's wage in either a contributory or a noncontributory plan (Inland now has both).

"Freezing" Past Service Credit

From time to time, unions have suggested that instead of funding past service credit, it should be "frozen." In this fashion, say the unions, it would merely be necessary to pay the interest on the past service credit (usually spoken of as "accrued liability"). You would never have to pay off the past service, under this line of reasoning. The concept is neither new nor revolutionary. It is a little like the home mortgages that were fairly common a generation or more ago. Those old mortgages merely required that you pay the interest on the amount of the loan each year; then you had to repay the principal of the loan in its entirety on some future date or sacrifice your home. Freezing past service credit is the same kind of thing, except that there is no definite date on which the loan has to be returned; you can, so the theory goes, keep on paying interest forever. If a home mortgage were written on the same basis, you might find that everything would go along well until, let's say, the grandchildren of the original owner (*the employees in 1990*) finally found themselves forced to move to another city. (*The company goes out of business.*) Having worked hard to pay the interest and keep

the house in good repair, they would find that they had no equity in the house. (*No fund to pay their pensions.*)

Almost all modern home mortgages are of the so-called "self-amortizing" type. In other words, you borrow $10,000 to build a house (*start a pension fund*) and pay back at the rate of $100 a month. The first month, a large part of this $100 may be used to pay interest, but the payment was determined in such a way that there will be something left over to reduce the principal of the loan. (*Past service credit is paid off.*) So the second month the amount of interest that must be paid is slightly less, and still more money will be available for reducing the principal. Under such an arrangement, you finally reach a point where the loan (*past service*) is completely paid off and the house (*pension fund*) is yours, free and clear.

In connection with this proposal to freeze past service credit, the union placed in evidence before the Steel Industry Board (as Exhibit 7) a booklet entitled, "Pension Plan and Social Insurance Documents." In support of its proposal for freezing past service liability, the booklet states, in paragraph 91 on page 23, "If, for example, the plan were to be discontinued because of a decision of a future Federal Government, that all pensions should be paid by the Government, the accumulation of large reserves might prove to have been fully in vain."

While it is true that prospective increases in Social Security benefits may reduce an employer's past service liability under a plan providing benefits which include Social Security, the unions are more than likely to come back at an employer the first time the pension is renegotiated and insist that if a $60-a-month private pension could be provided in 1948 (or whenever), then the employer can *still* provide a private pension of $60 a month. As one of the witnesses before the Steel Industry Board said, "We are not naive enough to believe that

even if the Federal Social Security program were greatly increased, the union would relieve us of any promises made to employees who are members of their union as to pensions."

William G. Caples of the Inland Steel Company, in his testimony before the Steel Industry Board, pointed out that, other things being equal, "freezing" past service liability would permit an actuarially sound plan *if the plan never terminated.* He concluded with the following paragraph, quoted from page 51 of Inland Exhibit 4:

> This pension plan proposal by the union must contain some discontinuance arrangement. There is a definite expectation that sooner or later some of the steel companies involved in a pension which may be adopted will sooner or later be forced out of business bearing in mind the long term nature of the promises here made. The only reasonable termination arrangement for the pension plan is that the employees should receive at least the portion of the pensions which have accrued to them up to the point of termination of the pension arrangement. This can be done *only* if the initial past service liability has been fully funded and there can only be some expectation of this being done if a funding program is begun from the start.

CHECK LIST ON FINANCING

Financing

1. Do you want to commit the company to funding at retirement?
2. Do you want to commit the company to funding future service currently?
3. Do you want to commit the company to funding past service?

4. Have you considered not funding your plan until the new level of Social Security benefits is established?
5. Does the funding clause (if any) give the company complete freedom to select the method of funding?

Insured Plans

1. Have you reserved to the company the right to select the insurance carrier?
2. Is there a clause providing that dividends will be applied to future premiums for the purchase of specified benefits, and not to any increase in benefits?
3. Have you provided for a trustee to hold title to policies issued?

Uninsured Plans

1. Have you reserved to the company the right to select the bank or trust company which will handle the funds?
2. Are contributions to the fund limited to the "actuarially determined" amount necessary to provide the specified benefits?
3. Is there a clause providing that overpayments to the fund resulting from actuarial miscalculations shall be used to reduce future payments and not to increase benefits?
4. If contributions to the fund are based on a formula, have you provided that contributions may be "varied from time to time," in accordance with actuarial estimates of fund requirements?

SAMPLE NEGOTIATED CLAUSES

The . . . Company's Retirement and Group Insurance Plans, in effect as of October 31, 1948, are as set forth in the contracts which the . . . Company has with the

[insurance company] and the . . . Insurance Company. An outline of each of these plans is in the booklet form which is attached to but is not a part of this Agreement and is provided only for the purpose of information to the employees of the . . . Company.

* * *

Section 11. *Certificates:* The insurance company will issue to each member a descriptive certificate outlining the provisions of the plan. At the time of retirement, the retired member will receive from the insurance company a supplemental certificate, outlining the amount of annuity and other benefits to the retired member and the conditions of payment.

* * *

Section 14. *Insurance Carrier:* The Plan set forth in this Subdivision I shall be operated under a contributory group annuity contract issued by the [insurance company]. It is understood that such insurance contracts may cover employees of the Company and its subsidiaries other than those covered by this Subdivision I. The Company reserves the right to change the insurance carrier under this Plan after notice to the Union and discussion of such change with the Union.

* * *

The Company will keep in effect during the life of this contract the retirement annuity plans now underwritten by . . . Insurance Company and the . . . Insurance Company of America, subject to any rights of cancellation given to either of said insurance companies by the terms of its policy.

In the event of any such cancellation, the Company will use its best efforts to obtain the underwriting of a similar annuity plan or plans providing equal benefits.

* * *

The Company agrees that during the life of this contract it will keep in force its present insurance contracts providing Group Life, Accident and Health, Hospitalization, Accidental Death and Dismemberment, and Retirement Income Benefits for employees.

* * *

The Company has a group annuity (pension) contract with the [insurance company] which provides that the Company may purchase at fixed rates a pension for life for each of its employees who has reached the age of sixty-five (65) years in the case of males and sixty (60) years in the case of females and who has been credited with continuous service of at least twenty (20) years with the Company. The pension is paid monthly. Its annual amount is equal to two per cent (2%) of the total compensation.

CHAPTER 10

TAX EXEMPTION

MANAGEMENT REVIEW

Employer contributions to most pension plans are tax exempt. You can, and should, plan your pension in such a way that contributions to it will be regarded by the Bureau of Internal Revenue as business expense.

In order to get a tax exemption for your plan, it must meet certain requirements set forth in Section 165(*a*) of the Internal Revenue Code. The requirements sound fairly simple. But by the time you get through the maze of legal interpretations and double talk, there will be plenty of headaches for your tax attorneys.

One thing you have to keep in mind is that your plan must meet the requirements of Section 165(*a*) in order to *qualify* for tax exemption. *The actual exemptions, from year to year, must be claimed under Section 23(p).* When the "pension fever" was at its height in the fall of 1949, a tax attorney boasted that his "fees for keeping pensions out of trouble under 23(*p*) would more than fund the pensions for U. S. Steel and all of its subsidiaries." The situation is not that bad by a long shot, but even if it were, it would be worth while for you to get a tax exemption for your plan.

Let's say your company is in the top tax bracket (38 per cent). If the cost of your pension plan is $620,000 a year, you save a cool $380,000 a year by being able to claim pension costs as a business expense. Looked at from a different angle,

tax exemption for your plan means that employees get about 65 per cent more benefits from each $1 of your gross income.

Here are the principal requirements to qualify a plan for tax exemption under Section 165(*a*):

1. Any pension plan must be "permanent." It can be terminated only by reason of "business necessity." (We'll have more to say about this point in the next chapter, on amendment and termination.)

2. The features of the plan must be set forth in a legally binding contract or agreement.

3. Contributions to the pension must be for the exclusive purpose of distribution to employees and their beneficiaries.

4. It must be impossible to divert any part of the funds accumulated under the plan to purposes other than for the exclusive benefit of employees and their beneficiaries unless and until all liabilities under the plan have been satisfied.

5. The plan must be for the benefit of either a certain minimum percentage of all employees (few plans are qualified under this so-called "arbitrary" rule) or for a group of employees determined in such a way as not to discriminate in favor of officers, stockholders, supervisors, or highly paid employees (the Commissioner of Internal Revenue has the sole say as to whether or not your plan meets this so-called "discretionary" rule under which most plans qualify).

6. The actual benefits specified must not discriminate in favor of employees who are officers, stockholders, supervisors, or highly paid employees.

The first four of these points are fairly easy to satisfy in any well-drawn pension plan. The last two will present a more difficult problem because they involve matters of interpretation, and the interpretations of the Bureau of Internal Revenue have been by no means consistent from one case to the next.

With pension plans now a subject of collective bargaining, there is one point that becomes very important: Don't set up a pension plan covering only employees in the bargaining unit unless you already have an approved plan for your salaried employees and executives. The Bureau has never clarified this matter in an official ruling, but in at least one case where a plan was established for union members, the Bureau later refused to qualify the second plan on the ground that it discriminated in favor of supervisors and highly paid employees. The rule is that you can have as many separate pension plans as you want, but each must qualify on its own merits in all respects. Even though the scale of benefits in two plans is the same, one may be held to be discriminatory because of the extent of its coverage.

There are three rules, however, that have been applied in enough cases so that it seems reasonably safe to rely on them:

1. The scale of benefits must be such that the total retirement income of a high-paid person shall not be a greater percentage of pay than it is for a low-paid person. In determining total retirement income, the Commissioner will use the amount of the private pension plus 150 per cent of the primary Social Security benefit.

2. Contributions on behalf of employees who are also stockholders may not be more than 30 per cent of the total contribution. In applying this rule, a stockholder is considered to be any person who, together with his wife and minor children, owns 10 per cent or more of the voting stock. And during the first 10 years of the plan, no contribution of more than $20,000 may be made on behalf of the 25 highest paid employees. In applying this rule, the Commissioner will consider the 25 highest paid employees, regardless of whether or not they are included in the plan. (If it produces a value larger than $20,000, an alternative formula may be used

for setting this limit: the number of years since the establishment of the plan times $10,000 or times 20 per cent of the first $50,000 of the employee's annual income, whichever is less.)

3. Where employees earning less than $3,000 per year are *excluded* from the plan, the formula for determining benefits is limited to one which is "comparable" with Social Security. Either of two rules may be applied in this situation: (*a*) The annual benefit must be limited to 25 per cent plus ¼ per cent for each year of service after 1941 times average compensation above $3,000; or (*b*) a future service benefit of 1 per cent and a past service benefit of ¾ per cent of average compensation above $3,000 per year.

Funding Past Service Credit

The manner in which you propose to fund (or not to fund) past service credit will have no effect on whether or not your plan will be qualified under Section 165(*a*). However, Section 23(*p*) places definite restrictions on what you can do.

The first general limitation is that you may not claim as a tax deduction more than 10 per cent of the initial past service liability in any one year. If you wanted to, you could pay the whole business in one lump sum. But you would be required to take your deductions over a period of 10 years. You don't have to take your deductions at the rate of exactly 10 per cent a year, either. If you have a bad year financially, you can simply pay interest for that year on the unfunded past service (such a payment is deductible) and not make any attempt to reduce the outstanding liability. It is because of this "10 per cent per year" tax limitation that you frequently hear people speak of the "10-year minimum funding period."

A second way of handling past service credit that is fully deductible is known as the "straight-line" method. Under this method, an actuary figures out just how much money must be

on hand at retirement date to provide both past and future service benefits for each employee. He then figures out how much money you will have to put aside each year for each employee, making due allowances for interest and the probable number of deaths before retirement. This same method can be used with level-premium annuities, although there is a case currently before the courts that may have a bearing on whether or not the method can be used as regards employees within 10 years of retirement date when the plan is established.

The third acceptable method of funding past service credit is known as the "aggregate funding" method. Under this method, you figure the expected annual benefit of all employees, starting at their respective retirement dates. Then you determine what is known as a "present value" of these future benefits. Following a somewhat similar line of reasoning, you assume that all employees will continue to earn at their present rate and from this determine a probable total future income, to retirement date, of all employees. Again, you compute a "present value" of this future compensation. The present value of future benefits divided by the present value of future compensation produces what is called an "accrual rate." This accrual rate is the percentage of covered payroll it is necessary to place in the fund so that all benefits of all employees will be fully funded on retirement date. The cost computed by this method is acceptable for deduction under Section 23(*p*), provided the average age of participating employees, weighted by salary, is at least 10 years less than the normal retirement age provided by the plan.

NEGOTIATOR'S REVIEW

The one aspect of a pension plan on which the union is most likely to be cooperative is being sure that it is designed

in such a manner that it will qualify for tax exemption under Section 165(*a*) of the Internal Revenue Code. The union knows that an employer able to count on tax exemption for his contributions will be willing to agree to far larger contributions than would otherwise be the case.

However, despite everything you and your lawyers and the union may do, there is always the possibility that the Commissioner will not issue a favorable ruling on your plan. To protect yourself in such a case, it is essential that you include both in the labor contract and in the plan (if the plan is a separate document) a "saving" clause. This clause should prevent the plan from going into operation until it has received the necessary approval by the Commissioner of Internal Revenue. You should also specify that in this event, either the company or the company and union jointly (through the bargaining committee, a special committee, or a board of administration) "shall be authorized to make any revision that is necessary to meet the requirements for qualification, adhering as closely as possible to the intent of this agreement." The chances are both you and the union will want to provide further that any such revisions must be approved by both parties before the plan is resubmitted to the Commissioner.

While you could get faster action and might have a little more flexibility in making the required revisions if you were free to act unilaterally, there is not too much danger in placing this matter in the hands of a joint committee. The union will be anxious to handle this matter quickly so that the plan can go into operation.

The point that is frequently overlooked in putting "tax saving" clauses in pension plans is that mere qualification under Section 165(*a*) is no absolute guarantee that the Commissioner of Internal Revenue will permit the contributions, as they are made, to be deducted as business expense under

Section 23(*p*). Therefore, you want to be sure that your "saving" clause permits amendment of the plan "as may be necessary to meet the requirements for deduction as business expense of the company's contributions under Section 23(*p*) of the Internal Revenue Code."

If your plan is to be contributory, you will want to specify that it does not become operative until it has been approved by the Securities and Exchange Commission. Technically, when you withhold an employee's contribution under a pension plan, the employee thereby obtains an interest in the company. While the SEC has never done so, it seems possible that the Commission would challenge your right to sell an interest in the company without first obtaining approval.

In a situation where salaried employees and executives are not already covered by a pension plan, you'll be taking an unnecessary chance if you don't insist, in negotiating with the union, on a plan that covers all employees rather than only employees in the bargaining unit. While this wouldn't make any difference when it came to qualifying the plan for employees of the bargaining unit, it might make a very definite difference in the possibility of getting approval for a second plan to cover nonunion workers, salaried employees, and executives. If, after you got one plan all set up, the union should refuse to let you amend it to include nonunion personnel you would have a dangerous situation on your hands. It would be an ideal situation for a militant union that has been trying unsuccessfully to organize your nonunion workers or your foremen. The best way to avoid getting into this particular kettle of hot water is to bring everyone in under the plan you negotiate with the union. (If anyone gets the idea that the benefits provided in the union plan are too small a percentage of income to be satisfactory for other employees,

tell him to forget it: The chances are you would never be able to qualify a "more favorable" plan.)

While you are entering clauses requiring approval of your plan, it's probably a good idea to provide that the plan shall not become operative until it has been approved by the stockholders of your corporation. Failure to get this approval leaves you open to the possibility of a minority stockholder's suit. While there is small chance of such a suit being successful, it could tie you up in expensive litigation for months or even years.

You will have to keep an eye out, too, for Section 302 of the Taft-Hartley Act. While this does not directly involve the proposition of tax exemption, failure to comply with Taft-Hartley could result in an automatic termination of the plan. Termination, other than under conditions very specifically set forth by the Bureau of Internal Revenue, means a retroactive loss of tax exemption.

REFERENCE REVIEW

The Bureau of Internal Revenue reports that "through June 30, 1947, applications for rulings had been processed with respect to 10,608 plans, and somewhat over 10,000 of these applications (the exact number has not been tabulated) resulted in favorable rulings. Through August 31, 1946, the number of applications processed had been 9,659, of which 9,370 resulted in favorable rulings, the remainder having either been disapproved or withdrawn. . . . These 9,370 plans include only plans of deferred compensation for employees, specifically pension, profit-sharing and stock bonus plans as defined in the second paragraph of Section 29.165–1(*a*) of Regulations 111: Pension plans include those retirement annuity plans which are found to meet the requirements of Section 165(*a*)(3), (4), (5), and (6) of the Code."

Numerous cases regarding the rulings of the Commissioner of Internal Revenue on the deductibility of contributions to pension plans are being carried into the tax courts all the time. One that particularly merits attention is the case of the Saalfield Publishing Company. When an adverse ruling was handed down by the tax court, the Commissioner of Internal Revenue promptly appealed to the Circuit Court of Appeals. The Circuit Court upheld the finding of the tax court in December, 1949. The Commissioner, however, announced that he did not "acquiesce" in the finding. This probably means an appeal will be made to the Supreme Court.

The Saalfield case is centered around the point of whether or not the limitation on deduction of past service costs to 10 per cent in any one year can be applied in cases where "straight-line" funding is used. The situation was roughly this: Saalfield established a pension plan in 1942. Of 29 employees, 4 were over age 55, and therefore less than 10 years away from normal retirement. A calculation was made in the case of each employee of the level annual premium that would have to be paid from attained age to retirement age in order to provide both past service and prospective future service benefits. The Commissioner agreed that all of this was perfectly proper, but balked at allowing Saalfield to deduct more than 10 per cent of the part of the prospective total premium resulting from past service credit of the four employees who were age 55 or more. The following paragraphs from the opinion of Judge Murdock (since upheld by the Circuit Court of Appeals) indicate where the matter stands today, subject to possible review by the United States Supreme Court:

> Congress was aware of the fact that the early annual deductions under the level plan might be greater than

one-tenth of the cost of funding if a substantial number of the employees were within 10 years of retirement. Nevertheless, the only concern indicated by it as to the rate at which level cost could be deducted is the limitation provided in clause (ii) . . .

> [. . . but if such remaining unfunded cost with respect to any three individuals is more than 50 per centum of such remaining unfunded cost, the amount of such unfunded cost attributable to such individuals shall be distributed over a period of at least five taxable years.]

. . . Otherwise, it was content to allow the deductions actuarially necessary under the level plan. The petitioner's method is sound and results in no abuse contemplated by Congress. . . . The petitioner is entitled to the entire deduction which is claimed and the Commissioner erred in limiting the deduction to an amount less than the level amount actuarially necessary and actually paid in the taxable year to fund past service credits of the participating employees over the period of the remaining future service of each.

Reviewed by the Court. *Decision will be entered under Rule 50. [The Saalfield Publishing Company, 11 TC No. 92, 11-1-48]*

CHECK LIST ON TAX EXEMPTION

Qualifying the Plan

1. Does the plan discriminate against low-paid employees in any way? (Would a second plan for nonunion workers, supervisors, and highly paid employees, if they are not included in the negotiated plan?)
2. Is the plan incorporated in a legally binding agreement?

3. Is there a clause specifying that the plan is for the "exclusive benefit" of employees?
4. Does the plan include a statement that it is "permanent"?
5. Have you *insisted* on a clause providing that the plan will not become effective unless and until approved by the Bureau of Internal Revenue under Section 165(*a*)?
6. Have you *insisted* on a clause permitting whatever amendments are necessary to secure approval of the plan? (See Chapter 11.)

Claiming Tax Deductions

1. Have you *insisted* on a clause permitting whatever amendments are necessary to secure deduction of contributions under Section 23(*p*)?

Preventing Disqualification

1. Is any feature of the plan in violation of Section 302 of the Labor-Management Relations Act (Taft-Hartley)?
2. If the plan is contributory, have you provided that it won't go into effect until approved by the SEC?
3. Do you want to provide that the plan won't go into effect until approved by the stockholders?

SAMPLE NEGOTIATED CLAUSES

The Company will continue its present pension plan and group insurance plan now in force, as long as it is entitled under applicable law, to a deduction for income tax purposes of amounts contributed thereto.

* * *

Subject to its approval by the Bureau of Internal Revenue, Treasury Department of the United States, and providing that not less than 75% of those eligible to do so

enroll in the Plan, the Company will put into effect and administer for the benefit of its employees the Retirement Plan now under consideration.

* * *

A pension fund to be mutually agreed upon by the Company and employees will be put into effect upon the approval of the United States Treasury Department.

* * *

3. The Retirement Income Plan set forth in Subdivision I of Appendix A hereto and the Optional Pension Plan set forth in Subdivision II of Appendix A hereto are each contingent upon and subject to obtaining the approval of the Commissioner of Internal Revenue as qualified pension trusts exempt under the provisions of Section 165 of the Internal Revenue Code. If the requirements of the Commissioner necessitate any modification or change in said Plans, the Company will promptly notify the Union and the parties shall meet within ten days for the purpose of negotiating regarding such modifications or changes and it is understood that in such negotiations the parties shall adhere as closely as possible to the intent of the parties as expressed in the plan or plans in which changes are necessary.

* * *

[The Plan] shall not become effective unless it has been approved by the stockholders of the Company prior to that date. If not so approved prior to that date, said Plan shall take effect the first day of the month following the month in which such favorable action is obtained, but if favorable action is not obtained by 12:01 A.M.

March 1, 1950, this Supplemental Agreement shall terminate as of 12:01 A.M. April 1, 1950. In that event, within ten days from March 1, 1950, the parties shall meet for the purpose of negotiating a new supplemental agreement and failing agreement by 12:01 A.M. April 1, 1950, the parties may respectively resort to strike or lockout in support of their contentions.

CHAPTER 11

AMENDMENT AND TERMINATION

MANAGEMENT REVIEW

Specific provision must be made in the original plan for amending or terminating it. In addition, there are certain requirements of the Bureau of Internal Revenue that must be met in amending or terminating a plan if you want to avoid a *retroactive* loss of tax exemption. In general, the conditions that have to be met are:

1. An amendment may not result in discrimination with respect to the benefits provided officers, stockholders, supervisors, or highly paid employees.
2. An amendment may not result in discrimination with respect to the contributions made on behalf of officers, stockholders, supervisors, or highly paid employees.
3. An amendment may not retroactively reduce the benefits provided in the plan. That is, you might get approval of an amendment reducing the scale of benefits based on future service, but you would have to continue the old benefit scale with regard to all service up to the time of the amendment.
4. An amendment may not retroactively reduce the company's liability for contributions.
5. All amendments must be approved by the Bureau of Internal Revenue before being put into effect. Failure to take this step may result in a loss of tax exemption even though the amendment would have been approved by the Bureau had it been submitted.

6. A plan may be terminated only for reasons of "business necessity."

7. Termination may not result in any recovery of contributions already paid by the company. The one exception to this is that a company may get a refund of any overpayments resulting from "actuarial errors."

8. Termination of a plan must be approved in advance by the Bureau of Internal Revenue. Failure to secure this approval may result in a retroactive loss of tax exemption, even though all other conditions for termination have been satisfied. And you will have to satisfy the Commissioner that the plan did not, at any time during its operation, discriminate in favor of officers, stockholders, supervisors, or highly paid employees (there are some particularly stiff rules that apply in this case if the plan is terminated within 10 years).

These rules sound quite reasonable and fairly simple. The trouble is you have no assurance that the Commissioner's interpretations of them will be reasonable, and by the time you had waded through all the conflicting rulings based on them you would think they are anything but simple. For example, you might think that imminent bankruptcy of a company would be enough proof of "business necessity" for the Commissioner to permit termination of a plan. Usually it is. However, there are a few cases where the Commissioner has ruled that because an employer became "overly optimistic" in making pension promises, tax exemption of the contributions should be disallowed retroactively.

There is one angle you want to watch for on this termination business: Failure to make the required contributions some year may result in the Bureau of Internal Revenue's ruling that your plan is thereby "partially" terminated and slapping you with a tax bill for your previous contributions. The other side of this same picture is that by getting approval

in advance from the Bureau, it may be possible for you to suspend contributions for a year or two without losing your tax-exempt status. There are a lot of strings attached to getting such approval, but it has been done in the past and presumably can be done in the future.

As we have seen, when a plan is terminated the funds that have been set aside up to the termination date must be used for the exclusive benefit of employees. There are, however, many ways in which this requirement can be fulfilled. You want to be sure to provide in the original plan just what distribution will be made of the remaining funds at termination. The principal requirement, from the tax angle, is that the distribution must not be discriminatory.

Entirely aside from the tax situation, there was a decision by the New York State Supreme Court in 1948 which, if adopted as precedent, would mean that even though the plan is terminated you have to continue paying pensions for life in the guaranteed amount to all employees who retired while the plan was in effect. The Court ruling was made in a case where no fund was involved. If such a ruling were to be made with regard to a funded pension, there would seem to be a possibility of conflict with the "nondiscrimination" requirement of the Bureau of Internal Revenue. That is, if a large percentage of retired employees surviving at the time the plan is terminated were officers, stockholders, supervisors, or highly paid employees, it would seem to be possible that a provision calling for continuation of their pensions as first claim on the fund would be held to be discriminatory.

NEGOTIATOR'S REVIEW

Unions will generally want to avoid putting a termination clause in a pension contract. The reason is not so much that the union leaders do not recognize the need for this type of

clause as that they fear the possible reaction of the membership. The unions remember full well that when Ford and UAW gave the workers their choice of two contracts back in 1947 (one for a wage increase, one for a pension plan) one of the principal reasons cited by the members for rejecting the pension plan was distrust of the clause that gave the company the right to terminate the plan.

You can point out to the union that you would be most unlikely to terminate the plan except under the very few circumstances that would not result in a retroactive loss of tax exemption. A possible compromise some unions have indicated is acceptable would be a clause providing for termination of the plan in the event that the Commissioner of Internal Revenue gives prior approval to the tax-exempt status of the termination. You want to avoid even this limitation, if you can. While the Bureau of Internal Revenue would probably approve termination in the event of bankruptcy, receivership, or major reorganization, it would not necessarily do so. There might be circumstances in such a situation where the company felt it sufficiently important to terminate the plan to be willing to make the sacrifice of retroactive tax payments.

You also want to get in the contract, if you can, specific union approval for suspension of contributions in the event that the Bureau of Internal Revenue approves such suspension.

Getting the union to agree to a clause that will permit you to make amendments to the plan will be somewhat more difficult. You want to get as broad a clause as you possibly can, but be *sure* to include a provision permitting whatever amendments are necessary to obtain approval of the plan by the Bureau of Internal Revenue under Section 165(*a*) and whatever amendments may be necessary from time to time to permit you to claim contributions as tax deductions under Section 23(*p*).

Where there is a preexisting plan or where the plan is merely "guaranteed" by the contract (rather than a part of the contract), you may be able to get the union to settle for a clause that provides that the benefits specified in the present plan shall not be decreased during the term of the contract. Of course, even this is not 100 per cent protection. It was just such a clause that the American Telephone and Telegraph Company had in its contract with the Communications Workers of America. When AT&T increased the minimum monthly pension from $50 to $100, the Communications Workers of America filed an unfair labor practice charge against the company, claiming a unilateral modification of the pension plan. (Just what the union hopes to gain by such tactics, it is a little difficult to see. If the union is successful, the best it can get is a restraining order against the company, preventing AT&T from making the increase effective in so far as union members are concerned.)

From a practical point of view, what the union wants is protection against any decrease in the rate of benefits or change in the eligibility requirements which might exclude some union workers. It is possible that if you had unlimited freedom to amend the plan without reference to the union, you might be able to make such amendments during the term of the contract. You will be reasonably well protected, though, if you get nothing more than the right to make amendments necessary to qualify under 165(*a*) and to deduct contributions under 23(*p*).

If your pension plan is incorporated in the union contract (rather than merely guaranteed by the contract), be sure to include a clause permitting you to continue contributions at the specified rate in the event that the contract is permitted to lapse because of a disagreement over pensions or anything else in the new contract. Without such a clause, you might

find yourself in a situation where the union could hold a multi-million-dollar tax dagger over your head with regard to the terms of a new contract. Strategy would be simple: "Meet our terms or we won't sign a new contract. When the old one expires your pension plan will be terminated, and you'll be stuck for retroactive taxes."

REFERENCE REVIEW

The UAW, in its "Basic Minimum Standards," is silent on the subject of amendments to a pension plan, as such. However, UAW recognizes that amendments will have to be made. UAW proposes a joint Board of Trustees with power to make *"adjustments* . . . as governmental programs develop or to meet unforeseen developments."

Murray W. Latimer, in his report to the American Newspaper Guild, "Retirement Funds for Newspaper Workers," adopts a different attitude. Says Mr. Latimer: "The representatives of the Guild would be well advised to resist any effort to modify or discontinue the plan apart from the usual processes of collective bargaining. The most that might be conceded is that the plan might be modified in certain circumstances such as the failure of the employer, as evidenced by the results of an accounting system approved by the Guild, to earn a profit for, say, three consecutive years, and provided also that the circumstances of discontinuance were such that the Bureau of Internal Revenue would not hold it to be evidence of a lack of bona fide intent in the original establishment."

"Temporary" Pension Plans

In a case arising from an arbitration between the New York City Omnibus Corporation and the CIO Transport Workers Union, a New York State Supreme Court handed

down a decision that may have a far-reaching influence if it is adopted as a precedent to apply in every case where pension plans are terminated.

The situation was roughly this: In the spring of 1947, the New York CIO Transport Workers Union demanded that the New York City Omnibus Corporation establish a pension plan for union members. Since they disagreed, the issue went to David L. Cole (later a member of the President's Steel Industry Board) for arbitration. The company's position was that its financial condition was such that it could not possibly undertake the long-term commitment involved in a pension plan. Without ruling directly on this point, Mr. Cole held that the financial position of the company was such that it could support a pension plan *for the term of the contract.* He therefore ordered a pension plan established for the term of the contract and specifically called attention to the fact that once the contract expired, the plan would be subject to renegotiation (and, theoretically, termination).

The company adopted the position that under the terms of the award it was necessary only to pay pensions during the term of the contract. The union challenged this position, holding that the company was required to pay pensions for life to those who retired during the term of the contract. The case was taken into the courts, and the New York State Supreme Court (8 LA 1071) ruled in favor of the union. While it is difficult to disagree with the logic of the Court's decision, the result may be to place some very tight restrictions on what you can do in the way of allocating the money that remains in an uninsured pension fund when the plan is terminated. (This problem would not exist with an insured plan, where each employee's pension is automatically fully funded on retirement date.)

The Court did not make clear whether, under its doctrine,

an employee would be entitled to receive for life whatever part of his normal retirement pension he had earned during the existence of the contract. To illustrate, let's say an employee is entitled to 1 per cent of each year's compensation as an annual pension. During the 5 years the pension plan was in existence, he earned a total of $10,000, for which he will be entitled to a pension starting at normal retirement age of $100 per year. A perfectly logical extension of the Court's finding would be that the company was obligated to pay this amount even though the first payment might not become due for 30 or 40 years after the plan had terminated, or after the company had gone out of business. (This is the attitude that has long been taken by the Inland Steel Company. See Mr. Caples' statement in the Reference Review in Chapter 9. However, this attitude is by no means universal among either union or management representatives.)

CHECK LIST ON AMENDMENT AND TERMINATION

Amendment

1. Have you *insisted* on a clause permitting whatever amendments are necessary to qualify the plan under Section 165(*a*)?
2. Have you *insisted* on a clause permitting whatever amendments are necessary to secure deduction of contributions under Section 23(*p*)?
3. Is there a clause permitting you to reduce or suspend contributions? (Do you want to make this "subject to approval of the Bureau of Internal Revenue"?)
4. Do you want to provide that no amendment shall be made without the consent of the union for the duration of the contract? (If you do this, be sure to exempt 1 and 2 above.)

5. Have you provided that no amendment will become effective until approved by the Bureau of Internal Revenue?
6. Do you want a clause reserving to the company unlimited right to make amendments? (Even if it means agreeing to void the "no-strike-over-pensions" clause when the union refuses to accept the amendments?)

Termination

1. Do you want to insist on a clause giving the company unqualified right to terminate the plan?
2. Are you willing to qualify your right to terminate by making it subject to approval of the Bureau of Internal Revenue?
3. Have you *insisted* on a clause permitting you to continue contributions in the event the union won't agree on terms for a new contract? (This point is vital where the plan is part of the contract rather than simply "guaranteed" by the contract.)
4. Does the plan provide a specific method for distributing any money in the fund at the time of termination?
5. Is there a clause providing that no money contributed can be returned to the company (except in case of actuarial error)?

SAMPLE NEGOTIATED CLAUSES

Section 12. *Members' Rights If Plan Discontinued:* If the plan is discontinued as hereinafter provided the Company cannot withdraw any contributions it has made. In such event the member, whether or not he remains in the employ of the Company, will receive the retirement income commencing at Normal Retirement

Date (or duly elected Earlier Retirement Date) that has been provided for him by his own contributions as well as those of the Company. If upon the discontinuance of the plan or thereafter a member elects to withdraw his own contributions with compound interest, he will nevertheless be entitled to the retirement income theretofore purchased for him by the Company.

* * *

For the term of this agreement but without commitment or liability thereafter, the Company agrees not to exercise its right to terminate the present pension plan or reduce its benefits for any reason.

* * *

(*c*) In the event there are funds in the trust in excess of the requirements for a full annuity for life for each of the members referred to and provided for in (*a*) above, then such excess shall be distributed among the other members of the Plan (*i.e.*, employees other than those in (*a*) above), in proportion to each such member's contribution to the Fund.

* * *

7. Notwithstanding the termination of the Agreement or any extensions or renewals thereof, the provisions of the welfare plans set forth in Appendix A hereto and of Sections 1 to 7, both inclusive, of this Supplemental Agreement shall remain in effect until December 31, 1954, except that the Company shall have the right to modify and change, or terminate, any or all of said plans

as of December 31, 1951, or at any time thereafter, by giving at least sixty (60) days' prior written notice to the Union and the employees then in the bargaining unit covered hereby. Such notice shall specify the modification and changes to be made, or the plan or plans to be terminated, as the case may be, and the effective date thereof. The parties shall meet at least thirty days before the effective date of the modification, change or termination, for the purpose of negotiating regarding the plan or plans modified or changed or terminated. If no agreement is reached by the effective date of the modification, change or termination, specified in said notice, they shall thereupon become effective; and notwithstanding any provision of any collective bargaining agreement then in effect between the parties hereto, the Union may at any time after the effective date of any such modification or change or termination and within thirty (30) days subsequent to the effective date thereof, but not after, resort to strike in support of its contentions regarding the plan or plans modified, changed or terminated, upon one hundred and twenty (120) hours prior written notice to the Company.

* * *

The continuance of the pension plan is subject to the continued payment of premiums by the Company. At the initiation of the plan, certificates were issued to the employees which included the statement that the Company reserves the right to alter or terminate the plan at any time without further liability to employees except those who have already reached retirement age. The Company made this reservation because it recognized that future circumstances beyond its control might require

it to alter or terminate the plan. Causes which may lead to such an alteration or termination are the following:

(*a*) New or existing legislation requiring the Company, by taxation or otherwise, to contribute toward the cost of existing or additional governmental social security, pension and/or other social benefit programs designed for purposes similar to the Company's pension plan;
(*b*) Legislation prohibiting the deduction of the costs of pensions from gross income in determining the Company's tax liability;
(*c*) Governmental regulations or economic or other conditions adversely affecting the Company's earnings; and
(*d*) Other factors or contingencies which cannot now be foreseen.

* * *

In the event of termination of this Plan, all funds remaining at that time in the hands of the Trustees shall be used for the following purposes only:

(*a*) To pay monthly retirement or disability benefits to those persons who may then be drawing such benefits.
(*b*) To pay expenses provided for in the Plan.
(*c*) To help finance any new retirement or disability plan or fund under which the employees participating in this Plan receive retirement or disability allowances.

* * *

If the plan is discontinued and the retirement income is less than $3.34 a month, the employee may be granted by the (insurance company) a refund of his own contributions and also a cash value arising from the Company's contributions made in his behalf. If the total retirement income jointly purchased by his own contributions and the Company's is $3.34 or more a month, the employee will receive a certificate outlining the amount of such retirement income.

* * *

If for any reason, the Plan is terminated, the Company shall not be refunded any contribution it may have made to the Trustee for the Plan, and all funds and assets of the Plan remaining in the hands of the Trustee shall be liquidated as follows:

1. Each member of the Plan who has contributed to the Plan and who is in the employment of the Company at the time of termination and has not received benefits from the Plan, shall be paid out of the fund an amount equal to the total amount of his contributions, without interest, if the fund is sufficient to make such payments.

2. If any member of the Plan, including persons then pensioned and those drawing disability benefits, has drawn benefits from the Plan, the total amount of which is less than the total amount of his contributions, he shall be paid the difference between the total amount of his benefits received and the total amount of his contributions, if the fund is sufficient to make such payments.

3. If the fund is not sufficient to make such payments, as set out in (1) and (2) above, then each member of the Plan will be paid pro-rate the highest percent of his

contribution the fund can pay, less any benefits he may have received.

4. If there is a balance remaining in the hands of the Trustee after carrying out the above plan, it shall be used to continue the Plan in operation until the fund is exhausted and the Plan thereby completely liquidated.

* * *

CHAPTER 12

ADMINISTRATION

MANAGEMENT REVIEW

Until pension plans came into the field of collective bargaining, providing for the administration of such a plan was a fairly simple matter. There were plenty of legal technicalities involved in contracts with insurance companies, and in trust indentures, and so forth. But the problem of keeping the administration of a plan out of "unfriendly" hands did not exist. With the unions now in the picture, however, this problem is very real. In many circumstances, the union's interest will be diametrically opposed to yours. Where you will be interested in cost and in being fair to *all* your employees, the union may well not be interested in cost at all and be interested in protecting the interests of union members only.

The Union's Role

Unions want a big part in the administration of pension plans. For the most part, unions are approaching this in a very disarming manner. They make the not unreasonable claim that it is difficult to negotiate pension details at the bargaining table. The solution they propose is to write only the most general outline of a plan at the bargaining table and turn it over to a committee composed of union and management representatives to work out the details. This, say the unions, will give the plan the necessary "flexibility" to meet

changing conditions. It will also, say the unions, make it possible to work out actuarial and technical details away from the "tense atmosphere" of the bargaining table. There is little advantage in transferring this problem to the "tense atmosphere" that might prevail in a joint union-management administrative committee.

Some unions go even further than a demand for a joint administrative committee. They want the union to be equally represented with management in a board of trustees to manage the entire design and operation of the plan. *This is not good business for the employer.* The board of trustees of a pension plan must be men capable of handling and investing soundly large sums of money. The board must have statistical facilities for handling a tremendous volume of statistical records and data. It is very doubtful that a union-management committee would be in a position to do either of those things well. Furthermore, the type of board of trustees proposed by most unions would also be a board of administration or an administrative committee at the same time. With such tremendous power placed in the hands of a single group of men, it would be more than ever necessary that the prime objective of every man on the board was to place and operate a pension plan on an actuarially sound basis. Experience to date gives any employer reason to doubt that union representatives serving on a board of trustees would have that objective.

It is possible to limit the powers of a board of administration in such a way that the basic soundness of the plan is beyond its control. In such a circumstance, unions have a pretty good claim to being represented on the board. Don't forget, however, that by placing union members on a board with even limited powers, you will be giving the union a "vested interest" in the plan. That is, if workers know that

they must depend upon being in the good graces of union officials in order to get fair treatment from the board of administration, then you will in effect be creating a closed shop. A worker approaching retirement would be most unlikely to oppose the union leadership on any issue if he thought there was a possibility that because he did so union representatives on the board of administration might refuse to certify him as qualified for a pension. And what happens if you have a pension plan that runs to 1954, and in 1952 the employees in your plant vote for a new union? Do members of, let's say, the United Electrical Workers Union continue to sit on the board of administration while the employees are represented by the new International Electrical Union?

Insured Plans

Where your plan is financed through an insurance company, your administrative problem is reduced to almost nothing. The insurance company will provide all the necessary actuarial service, handle the investment, guarantee an interest return, and do most of your record keeping for you. The employer, usually through an administrative committee, simply takes the responsibility for telling the insurance company whom to cover and in what amount. Once the premiums are paid, the insurance company takes virtually all responsibility. (Under a deposit administration plan, premiums are not actually paid until the retirement date. The insurance company takes no responsibility for the sufficiency of the deposit fund, but even here will assist the employer in every way to be sure that the necessary funds will be available when required to purchase annuities.)

Where a trustee is used to hold title to individual insurance policies, the role of the trustee is purely nominal. He serves principally as an intermediary between the individual em-

ployee and the insurance company. His discretionary powers are usually very limited.

Uninsured Plans

An uninsured plan gives you an opportunity to choose between the use of individual trustees and a corporate trustee. As a matter of practice, the great majority of uninsured plans are financed through a trust company or through an institution of that general type. Trustees, either corporate or individual, are limited by state laws in the type of investments they may make and in the discretionary powers they may exercise. However, it is possible to delegate a great deal of the responsibility for routine administration to either an individual or corporate trustee. This is done through a "trust indenture," a rather complicated legal instrument which will not in any way be a part of the labor agreement.

Regardless of the discretionary powers that you give to the trustee, it will be necessary for you to have a board of administration or an administrative committee. This committee will tell the trustee when to make payments, to whom, and in what amount. It has been customary in the past to give the administrative committee the power to select the actuary, to approve mortality tables, and to determine the rate of interest to be used in figuring contributions to the fund. It is not necessary to do this. It is possible to reserve such decisions to the company, and it is certainly advisable to do so if the administrative committee is to be composed of representatives of both the company and the union.

(In case you don't think it is important to know who is making the actuarial assumptions, just consider this: If you take the 1937 Standard Annuity Mortality Table, you would find that from a fund of $10,000 you could pay an annual pension of $682 a year to a female, starting at age 65. On the

other hand, if you take the American Experience Table, you would find that you could, theoretically, pay a pension of $1,014 a year to a female starting at age 65. Both of these figures are based on an assumed interest rate of 2 per cent. If you assumed 3 per cent with the American Experience Table, you would find the pension to be $1,073 per year. Obviously, two of those figures—and perhaps all three—have to be wrong. The difficulty is that a union representative is likely to adopt the attitude of "let's use the most liberal figure, and if the fund runs short, the employer can make up the difference.")

Administrative Costs—Insured Plans

The administrative cost of an insured plan will generally run from 3 per cent to 5 per cent of annual premiums for a non-contributory plan and slightly higher for a contributory plan. The difference is accounted for by the fact that a contributory plan requires somewhat more detailed bookkeeping on the part of the company, and the company must stand the expense of collecting the contributions from employees (generally through withholding from payroll).

There is a common misconception that the administrative costs on an insured plan run to 8 or 9 per cent of premiums. It is true that an insurance company "loads" its actuarially determined premiums by 8 or 9 per cent to arrive at the premium to be paid by the employer. This loading, however, includes not only administrative expenses but also a reserve for contingencies. In most insurance companies, the loading will be no more than 3 per cent or 4 per cent for administrative expense, and 5 per cent for contingencies. The reason for this contingency factor is that the insurance company guarantees a rate of interest on its policies. So, any losses that are incurred on investments must be made good, and the

insurance company must have a reserve available to make up a deficiency if it fails to earn the guaranteed rate of interest in any given year, or if mortality is less than expected.

In addition to the administrative expense incurred by the insurance company (and charged to you), you must recognize that you will have to stand certain "hidden" administrative costs—incidental bookkeeping, preparation of statistical reports, and time off for union representatives and executives who are handling administrative problems. You should probably include in administrative cost the expense of preparing any special certificates or booklets that are distributed to employees.

While the insurance company will provide all the necessary actuarial service, some companies wish to retain an independent pension consultant in addition. Where this is done, of course, his fees are a proper charge against administrative expense. The same thing is true where a trustee is used in connection with an insured plan. Taking all these factors into consideration, it is probably fair to say that an additional 1 per cent or 2 per cent of annual premiums should be charged to administrative cost.

Administrative Costs—Uninsured Plans

We have already seen that relatively few uninsured plans are handled through individual trustees. There are, therefore, few data available to indicate the administrative cost of this type of plan. Where a corporate trustee is used, it is possible to make somewhat more accurate estimates.

The first, and most obvious, cost that must be considered is the fee of the trustee. In general, the fees of a bank or regular trust company will vary anywhere from ¼ to ½ per cent per year of the principal for the first half million or million dollars, and then run on a sliding scale down to perhaps 1/10 per cent

per year for any excess over $2 million or $5 million. The rates are by no means uniform. When you figure that money is likely to remain in a fund for anywhere from 10 to 30 years, even 1/10 per cent per year on the principal of the investment begins to run into real money. Recognizing the distaste of some employers for having the fee charged on the basis of the principal, a few banks have now worked out a schedule whereby a charge of (usually) 2 per cent of the contribution is made. This tends to put the cost on a basis where it appears to be competitive with the insurance company's "loading" for administration. The thing you have to take into account is that in most cases the fees cover only the trust company's investment service. Additional charges are generally made for keeping special records on individual employees and for making payments (a charge of 25 cents per check issued is not unusual). Just the charge for issuing checks might conceivably be as much as ¼ to ½ per cent of the annual contribution.

To the charges of the corporate trustee must be added your fees for actuarial service and your retainer for a pension consultant (if any). You will also encounter the same "hidden" costs that you would have with an insured plan—only there is a good chance that these costs will be higher because of the added necessity for you to keep records that an insurance company would otherwise keep. At best, it seems doubtful that your "hidden" cost would be less than 1 or 2 per cent of your annual contribution.

The representatives of insurance companies and trust companies can each make out a good case for low administrative cost when you handle your pension by their method. They frequently note, however, that there are "some circumstances" where it is probably cheaper, as far as administrative costs are concerned, to do it the other fellow's way.

NEGOTIATOR'S REVIEW

Unions, almost without exception, are asking management to set up a pension plan with a joint board of trustees. You want to avoid doing this if you possibly can. If you do set up a joint board, you certainly want to use a corporate trustee to handle the funds.

A joint board of administration (as opposed to a joint board of trustees) will probably not do you any harm if its powers are very carefully enumerated in the contract and if you specifically exclude everything that is not included in the enumeration. The plan of the Ford Motor Company is a pretty good example of how far you can safely go in giving powers to a joint board of administration. At the opposite extreme is the new plan of the Bethlehem Steel Company where the "Joint Committee on Insurance and Pensions" is purely a nominal committee without any power whatever. (The appropriate sections of these two contracts will be found in the sample clauses at the end of this chapter.)

One thing you have to take into consideration in assessing the merits of the Ford and Bethlehem plans in respect to the joint boards is that under the Ford contract, the pension plan is in no way subject to the grievance procedure. Under the Bethlehem plan, on the other hand, there is specific provision for certain features of the pension plan to be subject to the grievance procedure and ultimately to go through to arbitration. What it boils down to, in effect, is that there are certain matters relating to a pension plan in which you can give a union a say at the outset (through representation on the board of administration) or on which you can have management make the decision and simply give the union the right to protest through the grievance procedure.

Before pensions came into the collective bargaining picture, it was customary to give a board of administration the power to designate the mortality tables and the interest rates on which contributions or premiums were to be based. With union representation on the administration board, you want to avoid this if it is at all possible to do so. The stakes are altogether too high to let selection of mortality tables become a political football.

There is no really "typical" composition of a board of administration. The one rule that can be laid down is that if the board is to be given any real discretionary power, it will be necessary to make provision for the appointment or election of an impartial chairman who will be empowered to cast a deciding vote in case of a tie. In general, you will probably find either three, five, or six representatives of management and a like number of union representatives sitting on a board of administration. The impartial chairman can either be a man who serves continuously or who is appointed from time to time as need arises for his services. One thing you want to be sure of is that provision is made not only for appointment of members of the board of administration, but for resignation of these members and for appointment and qualification of their successors. Just how important such a provision can be was proved in the case of the United Mine Workers Welfare Fund, where no provision was made either for resignation of a trustee or for appointment of a successor. That particular case has been thrown into the courts, and it will likely be months before the matter is finally resolved. (However, failure to provide for resignation and succession of trustees was one of the less important defects in the Mine Workers' pension plan.)

Members of a board of administration generally serve without compensation, in much the same manner as shop stewards.

That is, they are given time off from their regular jobs to perform their duties in connection with this assignment. However, if the functions of the board of administration are more than nominal, it is not unlikely that considerable time and even overtime will be required. It will probably be a good idea to pay union representatives time and a half for any overtime required, just to keep out of trouble with the Wage-Hour Division. (The same thing would apply to any management representatives who might come under the Wage-Hour Law.)

REFERENCE REVIEW

In its report on welfare funds, the Joint Committee on Labor-Management Relations of the Congress of the United States (the Ball "Watchdog" Committee) devoted considerable attention to the advisability of giving a specific union a voice in the administration of a welfare plan. The Committee stated its conclusion as follows:

> . . . The wisdom of using a welfare program as a means of enforcing union discipline is seriously questioned. The inadvisability of such a use is especially apparent where continuous good standing in the union for as many as 20 years is necessary in order for a participant to be eligible for pension benefits. It also provides a means of obtaining a condition closely approaching the closed shop now prohibited by the act. The benefits may become so attractive as to militate against any free choice in the change of bargaining representative or repudiation of the existing representative.

The United Auto Workers in its "Basic Minimum Standards for Supplementary Security Programs" outlines in considerable detail the position being adopted by many unions with respect to their demands for placing complete control of the pension

plan in the hands of a joint board of trustees. The complete text of this document will be found in Appendix 5. The section dealing with boards of trustees is listed under Step II, part 6.

A very careful and complete statement of CIO position on the matter of administration of pension plans is found in the report, "Retirement Funds for Newspaper Workers," prepared by Murray W. Latimer, pension consultant to the CIO. Practically all of Section 11 ("administration") of Mr. Latimer's report is quoted below. The only sections which have been deleted are brief references to cost figures cited in other parts of the report.

> In times past most pension plans have been administered by the employer on a unilateral basis, with such help from insurance companies, actuaries and other experts as the employer, in his discretion, might retain. Participation by representatives of labor organizations in the administration of pension plans is highly desirable for several reasons. First and foremost, of course, is that participation is desirable in order to make sure that the interests of the participants are protected. Second, the experience gained by union representatives in knowledge of the functioning of pension plans is valuable. Third, participation in administration gives union representatives a leverage in making sure that the development of the plan is toward more effective protection of employees against the hazards of old age and disability.
>
> The tasks of an administrative body have to do with the award of pensions, which may involve determination of disability or recovery from disability; with decisions as to how to make the payments in order to protect the interests of those elderly or disabled persons whose men-

tality may have been clouded; with maintaining records useful for the purpose of studying experience; with seeing to it that adequate contribution rates are maintained; with making decisions with respect to investments or with respect to selection of outside agencies for that purpose; with recommending changes in plan terms; with whatever steps are needed to make the plan function effectively. In all these aspects of administration, the union has as much, frequently more, to contribute as management.

The Taft-Hartley Act recognizes the right of labor representatives to sit on boards of trustees administering employee benefits, and specifies the methods to be used to solve any disagreements between those who represent the employers and those who represent the employees. It is suggested that the proposal for a pension plan presented under the collective bargaining processes provide for administrative board or board of trustees which will be composed of equal numbers of employer and union representatives with appropriate methods of selecting neutral persons to settle any disputes which may arise. In some cases it may be appropriate to propose a tripartite board, rather than a bi-partisan one with neutral persons serving only when needed to break a deadlock. . . .

Some employers have established pension plans administered through insurance companies because of their feeling that by so doing they divest themselves of responsibility for the results. There is, to be sure, some foundation for this feeling. On the other hand, the advantages of the trustee arrangement are very substantial and, in particular, the normal methods of calculating costs in connection with the trust fund are likely to assist in getting adequate benefits from the start. . . . For the purposes of presenting the plan, it would be desirable to lay emphasis on the

proposal for a trust fund; and to this end the administrative body might well be referred to as a board of trustees.

CHECK LIST ON ADMINISTRATION

Powers of the Administrative Committee (or Board of Trustees)

1. Shall the committee have power to select a trustee (corporate and or individual)?
2. Shall the committee have power to select an actuary?
3. Shall the committee have power to adopt mortality tables, withdrawal rates, and interest rates to be used?
4. Shall the committee determine what records are to be kept?
5. Shall the committee be responsible for keeping records?
6. Shall the committee interpret rights of employees under the plan (including ruling on benefits payable, directing the trustees to pay benefits, and handling appeals)?
7. Have you inserted a clause limiting the committee to exercising only those powers specifically delegated to it?
8. If the powers of the committee are broad, do you want to insert a clause that in exercising the enumerated powers, the committee shall not in any way "modify, alter, add to, or subtract from" any provision of the plan? (This would be particularly important where the committee is composed of both union and management representatives.)
9. Do you want to place any restrictions on the expenses that may be incurred by the committee?

Composition of Admininstrative Committee (or Board of Trustees)

1. Will membership on the committee be limited to company representatives?

2. Will union representatives be included on the committee?
3. Will "public" or "neutral" representatives be included on the committee?
4. Have you made provision for selecting an "impartial" member of the committee to break deadlocks?
5. Have you specified how an "impartial" member shall be selected if the union and company cannot agree?
6. Is there a specific procedure for resignation of committee members and for filling vacancies resulting from resignation or death?
7. Will members of the committee be paid by the company for time spent in committee activities? (Particularly important where members may come under the Wage-Hour Law.)

SAMPLE NEGOTIATED CLAUSES

(Ford Motor Company and United Auto Workers-CIO)

Section 3. The benefit structure of the Retirement Plan shall be administered within the framework of the Pension Agreement by a Joint Board of Administration, having three members each from the Company and the Union. Suitable provisions shall be made for the breaking of any deadlocks by an impartial chairman selected by mutual agreement by the Company and Union representatives on the Board.

Section 4. The Board of Administration shall be empowered to administer the Plan as it relates to development of administrative policy and procedure, for such functions as:

A. Verifying and establishment of service credits;

B. Methods of handling and paying claims and benefits;

C. Interpretation of the rights of employees under the Plan;

D. Reviewing and acting on appeals;

E. Collection and analysis of administrative statistics;

F. Authorization to the Bank or Trust Company acting as Trustee for the Pension Fund, for proper payments from the Pension Fund; and

G. Similar and related functions and duties that are inherent in proper administration of benefits and operation of the Plan.

Decisions of the Board of Administration shall be by majority vote with the impartial chairman empowered to cast the deciding vote in case of a tie.

Decisions of the Board shall be final and binding.

* * *

(Bethlehem Steel Company and United Steelworkers of America-CIO)

9. The Company and the Union shall establish a joint committee on insurance and pensions consisting of ten members, five of whom shall be designated by the Company and five of whom shall be designated by the Union. Such committee shall be furnished annually a report regarding the program of social insurance benefits and the operation of the Pension Plan in so far as it affects the Employees, and also a copy of the annual report of the General Pension Board. From time to time during the term of the Existing Agreement such committee shall be furnished such additional information as shall be reasonably required for the purpose of enabling it to be properly informed concerning the operation of the insur-

ance program and of the Pension Plan in so far as it affects the Employees.

* * *

The understanding between the Company and the Union referred to in Article XX of the Agreement between the Company and the Union effective August 20, 1947, has now been carried out by the offer of a "Pension Plan for Hourly Paid Employees of . . . Company effective June 1, 1948." It is understood that this plan pertains to all the Company's hourly paid employees, including those represented by other unions.

Note: Article XX referred to above states: "The understanding between the Company and the Union with respect to a pension plan for hourly paid employees is set forth in Appendix 'H' attached hereto and made a part hereof."

* * *

The Committee shall make an annual report to the Company and to the [union], and shall make such other reports as to the operations of the Plan as it deems advisable. The Committee shall have an audit made annually of the funds received and disbursed by the Trustees. The auditor's report shall be published and distributed by the Committee among the employees of Company participating in the Plan.

* * *

A Committee on Pensions, consisting of an equal number of representatives of the Company and the Union, shall pass upon future applications for pensions, within the framework of existing practices, and make recom-

mendations to the Board of Directors of the Company concerning such applications.

*   *   *

5. The Company and the [union] shall continue in existence, by making necessary appointments and taking any other required steps, a full Committee to carry on all functions herein provided to be performed by the Committee until all funds received by the Trustee hereunder have been fully disbursed and all obligations of the Trustee hereunder have been performed.

*   *   *

The Committee shall select two (2) of its members, one representing the Company and one (who shall be a member of the [union]) representing the employees participating in the Plan, as Trustees for the purpose of administering the funds contributed by the Company and the employees participating in this Plan, whose duties and authority shall be such as are hereinafter set forth. In the event of the death or resignation of either of said Trustees, the surviving or remaining Trustee shall have no authority to act, but the Committee shall select a successor, such successor to represent the same party to this agreement as the deceased or resigned Trustee represented.

*   *   *

The Company has announced various benefit plans for its employees, which expressly are not made a part of this agreement. Under the provisions set forth in these plans the Company expresses its purpose to give its employees the benefits therein outlined until and unless the

Company, in its own judgment, sees fit or is required by law to modify or terminate any one or all of said plans.

* * *

The administration of the Plan shall be by the insurance company and the terms of the contract issued by the insurance company shall be controlling in all matters pertaining to income benefits and retirement thereunder.

CHAPTER 13

GRIEVANCES AND ARBITRATION

MANAGEMENT REVIEW

Except in cases where a union has a big say in the administration of a pension plan, the union will want the operation of the plan to be subject to a grievance procedure. Most unions are sufficiently aware of the special nature of pensions not to insist that the plan be made subject to *the* grievance procedure. That is, the chances are about nine out of ten that a union will agree to establishing an entirely separate grievance procedure or else to start at either Step 3 or Step 4 of the normal grievance procedure. Certainly there is no point to bringing the foreman or steward into the grievance procedure as far as pensions are concerned. While it is possible that a foreman might be able to persuade an employee that his grievance was fancied rather than real, the foreman would hardly be in a position to satisfy the worker's complaint even if he thought it sound in every respect. Putting a foreman in a position where he ever has to say, in effect, "I think you're right, but there is nothing I can do about it," is just not good management. You might as well avoid it at the outset.

Special Procedure

There are two reasons why both you and your employees will get better protection if the pension plan is made subject to a special grievance procedure rather than to the regular grievance procedure (even in foreshortened form):

1. Proper processing of pension grievances requires the attention of men who are familiar with the pension plans and who are at least aware of many of the special problems of pensions. It is unlikely that either the union or management representatives who handle grievances through the normal procedure would have these qualifications. Men specially designated to handle nothing but pension grievances, on the other hand, could be appointed with a view to their special knowledge of the subject. And even if they have no special knowledge, the chances are their load will be light enough so that they will have an opportunity to familiarize themselves with pensions.

2. Many grievance procedures terminate in arbitration. The amount of money involved is so great and the commitment is so far-reaching that you're taking a tremendous chance to let a pension question get in the hands of an arbitrator. Few arbitrators have the special qualifications necessary to handle pension questions. Even with the best of intentions, an ill-informed arbitrator can play hob with a pension plan. A "compromising" arbitrator can completely wreck a pension plan—and perhaps the company with it.

A few companies are so anxious to keep the pension matters out of the hands of arbitrators that they go so far as to provide that if the union and management cannot agree short of arbitration, the union "may resort to economic force in support of its contentions." While such a provision may seem drastic, there may be circumstances under which the cost of a long strike would be less than the cost of an adverse arbitration award. As an example, let's take a situation in which an arbitrator came up with an adverse ruling on the meaning of the term "years of service." If his decision involves the determination of labor grades for pay rates under the contract, it could prove to be quite expensive—for a short time. But

at the expiration of the contract (one or two years), you would have an opportunity to revise the clause in such a way as to nullify the award in future contract periods. (We're forgetting for a moment the practical problem of getting the union to accept such a modification.) On the other hand, if the arbitrator's award involved the computation of past service credit or eligibility under a pension plan, it would apply *permanently* to all employees on your payroll at the time the award was made or who entered your employ prior to the time the clause was revised. The reason is that any amendment to your pension plan having the effect of a retroactive reduction of your liability will probably result in a retroactive loss of tax exemption. Changing a definition in such a way as to reduce the amount of service credited to a worker would have exactly that effect. As a member of the board of directors of one company put it, "The consequences of arbitration are too great. I'd rather take my chances with a $10 million strike than give some one man the power to make a decision that might cost us $2 or $3 million a year for the next 50 years."

A more common solution is to limit very sharply the matters which shall be subject to the grievance procedure. Determining the number of years of service, the average income, or age of an *individual* employee may be considered "typical" of matters made subject to grievances and arbitration. Where the contract calls for forfeiture of pension rights under certain circumstances, this sometimes is included.

An approach to the matter of arbitration that seems to have unusual merit is a provision that the arbitrator may rule on the "good faith" of the pension board or administrative committee but may not make a substantive ruling on the case. Should the arbitrator find the board or committee had acted in bad faith, it would be necesary to make a new inter-

pretation on the matter. The arbitrator could not, however, make an "award" in the sense of ruling what the new interpretation must be.

Contract Arbitration

Where your whole contract, rather than just grievances arising under it, is subject to arbitration you are in even greater danger. By writing a pension plan into your contract, an arbitrator can commit you for untold millions of dollars over a long period of years. By changing the contract terms of an existing pension plan, an arbitrator can place you in jeopardy of losing the tax-exempt status of your plan by requiring an amendment that would not be acceptable to the Bureau of Internal Revenue.

Does your contract have a clause providing for arbitration in wage disputes? Unless pensions are specifically excluded, there is no protection against a pension award by an arbitrator. With pensions now established as a definite part of "wage bargaining," there seems to be an excellent chance that arbitrators will not be as hesitant as they have been in the past to order either establishment or modification of pension plans.

There is little to guide either management or unions in the way of precedent on wage arbitration. Most pension awards have been made in contracts involving utility and transportation companies, where the entire contract rather than just the wage clause was subject to arbitration.

Permissive Arbitration

Where arbitration, either of a grievance or of the contract, is on a permissive rather than automatic basis, the only safe formula for management to follow is: Don't. Obviously, management would be inviting retaliation by following an inflexible rule of not arbitrating the pension disputes. It is far more

satisfactory for everyone concerned if you can reach agreement on automatic exclusion of pensions. But where this is impossible, you want to exercise the utmost caution in agreeing to submit pension disputes (or wage disputes that may involve pensions) to arbitration.

NEGOTIATOR'S REVIEW

In the midsummer of 1949 a group of industrial relations directors were discussing the pension problem. One, who had been negotiating with his union for several weeks, remarked, "Unions are so anxious to get a pension that they will concede almost anything in the way of management control." Following the Ford settlement, he remarked to another group, "Unions are so anxious to get control of pensions that they are willing to concede almost anything in the way of benefits."

Both of those statements were exaggerations. It is true, though, that with the dike now broken on pensions, unions are far less likely to agree to full management control of the plan. They will either want a voice in the administration of the pension or else will want the broadest possible clause making operation of the plan (under management control) subject to the grievance procedure. The net result is that you will have a first-class trading issue on administration and grievances. Every point you concede in making the plan subject to the grievance procedure is one less reason for the union to demand a voice in administration, or *vice versa.* Each company will have to make its own decision as to the direction in which it wishes to make concessions (if any).

Assuming the plan is going to be subject to the grievance procedure in some degree, what provisions do you want to make? The first thing is to eliminate Step 1 and Step 2. Whether or not you eliminate Step 3 is a toss-up. If the union

has a strong feeling one way or the other, you can probably concede on this point without doing yourself any damage. It's at the terminal point of the grievance procedure that you're going to have trouble.

If your grievance procedure goes to arbitration, you want to eliminate this last step if you possibly can. Even though arbitration is permissive, you'll be far better off to eliminate it by agreement than by saying "No" every time. If you can't eliminate arbitration, you will certainly want to limit the types of disputes that can be carried to arbitration.

Except in unusual circumstances, the most you want to agree to is that an arbitrator may rule on the circumstances surrounding the pension claim of an individual employee. Don't let the arbitrator get his hands on the plan itself. Be sure to include an ironclad clause preventing the arbitrator from "adding to, subtracting from, or otherwise altering" the pension contract, the pension plan, or the operation of the pension plan.

If your contract has a wage arbitration clause in it, you will want to do everything you can to get pensions specifically excluded. In cases where a company already has a pension plan, this is possibly unnecessary *if the pension plan is mentioned in the contract*. The presence of a pension provision in the contract would probably be considered good evidence that you and your union were in agreement that pensions should be a subject apart from wages. In the Allied Mills case, the NLRB gave strong indication that it would accept such reasoning. However, the NLRB will not be your wage arbitrator, so your best course is to try to get the exemption.

Where the entire contract is subject to arbitration, you should try to get an exclusion of pensions. Because most of the companies with contracts subject to arbitration are utilities or public service corporations of one type or another, it may not be

practical to do this. In such a situation, your best defense is probably to try to convince the arbitrator that it would not be in the public interest to attempt to establish or modify a pension plan through arbitration. Some pretty good ammunition was provided for you by the arbitration board that served under the chairmanship of Professor Clark Kerr of the University of California in the dispute between the Bay Cities Transit Company and the Street, Electric Railway and Motor Coach Employees Union (AFL). The report of the arbitration board (11 LA 747) contains a very clear explanation of why this particular board would not have made an award of a pension plan even if they had found the company able to pay for one (union and company had agreed to accept a plan if the board found that the company could finance it). Despite the fact that the chairman of the board is a professor of economics (and very well informed on pensions), the board said that the complex job of designing a workable pension plan was something it could not do with any assurance that the award would be fair either to the company or the employees.

REFERENCE REVIEW

Employer-initiated pension plans rarely were subject to grievance procedures. When unions came into the pension picture, they adopted as their objective joint control of plans. Where this has been achieved, it has been unnecessary to employ grievance machinery.

Until late 1949 unions were generally willing to concede on control of the plan and leave it entirely in management hands, without even recourse to the grievance procedure. A not uncommon compromise was for the union to have the right to represent employees before the all-management administrative committee.

The pattern of agreements in late 1949 seems to make a

limited number of questions relating to the individual employee's status under the plan subject to the regular grievance procedure. Too few agreements have made any provision with respect to grievance procedures to be able to identify any trend. Certainly, most plans that are subject to grievances have been in existence (as negotiated plans) for too short a time to have established any record of experience.

CHECK LIST ON GRIEVANCES AND ARBITRATION*

Grievance Procedure

1. Shall the operation of the pension plan be subject to a grievance procedure at all?
2. Will the regular grievance procedure be used?
3. Have you eliminated Steps 1 and 2 of the regular procedure?
4. Do you want to eliminate Step 3 of the regular procedure?
5. Have you considered setting up special grievance machinery to handle only pension cases?

Arbitration of Grievances

1. Do you want to permit pension grievances to go to arbitration?
2. Have you limited the arbitrator to ruling on the treatment of individual cases by the administrative committee, rather than ruling on the plan itself?

* Because union representation on an administrative committee largely eliminates the need for subjecting pensions to the grievance procedure, this check list should be used in conjunction with the check list on administration (Chapter 12). The questions above relating to grievance procedure are based on the assumption that the union will not be represented on the administrative committee.

3. Does your arbitration clause provide that the arbitrator may not "add to, subtract from, or otherwise alter" terms of the pension plan or pension agreement?

Substance of Grievances

1. Does the agreement specify exactly what questions will be subject to the grievance procedure?
2. Is the arbitrator specifically forbidden to rule on subjects not set forth as arbitrable?
3. Do you want to let an arbitrator decide whether a given case is arbitrable, in the event of disagreement?
4. Have you considered merely submitting the question of "good faith" to arbitration?

Wage Arbitration

1. Is a pension award specifically excluded under the terms of a wage arbitration clause?
2. Have you considered limiting a pension award under a wage arbitration clause to the *cost* of pensions (resulting in a money-purchase plan)?

SAMPLE NEGOTIATED CLAUSES

If, during the term of the Existing Agreement, any difference shall arise between the Company and any Employee who shall be an applicant for a pension under the Pension Plan, as to

(*a*) The number of years of actual continuous service of such applicant (as the term "continuous service" is used in the Pension Plan) in the employ of one or more Employing Companies (as the term "Employing Companies" is defined in the Pension Plan); or

(*b*) The age of such applicant; or

(*c*) The average monthly compensation received by such applicant from one or more of such Employing Companies for services rendered during the one hundred and twenty calendar months next preceding the month in which he shall retire; or

(*d*) Whether an applicant, who shall have been determined to be permanently incapacitated and who shall have had at least 15 years of such continuous service but not have attained the age of 65 years, shall have become so permanently incapacitated through some unavoidable cause (an incapacity shall be deemed to have resulted from an unavoidable cause unless it (*a*) was contracted, suffered or incurred while the Employee was engaged or resulted from his having engaged in a criminal enterprise, or (*b*) resulted from his habitual drunkenness, or (*c*) resulted from a self-inflicted injury), such difference may be taken up as a grievance in accordance with the provisions of Article XI of the Existing Agreement, beginning at Step 3 thereof. If any such grievance shall be appealed to an impartial umpire in accordance with the provisions of Section 2 of said Article XI, then such impartial umpire, in so far as shall be necessary to the determination of such grievance, shall have authority only to interpret and apply the provisions of the Pension Plan and of this Agreement, but he shall not have authority in any way to alter, add to or subtract from any of such provisions; and his decision on any such grievance which shall properly have been referred to him shall be binding on the Company, the Gen-

eral Pension Board, the Union and the Employee concerned therein.

* * *

II. The Union, on behalf of the employees it represents, may present questions concerning the administration of the Plan by the Company. Such question relating to the administration of the Plan shall not be processed beyond Step D of the Grievance Procedure provided for in the Collective Bargaining Agreement between the Company and the Union. [*i.e.*, last step prior to arbitration]

* * *

It is understood and agreed that the provisions of Article X., Strikes and Lockouts, in the Collective Bargaining Agreement between the parties, shall not be applicable to any dispute which may arise as a result of negotiations under this part of the agreement and that any such dispute shall not be subject to review through the Grievance Procedure or arbitration as provided in the Collective Bargaining Agreement between the parties.

* * *

The Union shall have the right to represent before the Pension and Benefit Committee any of its members.

* * *

Any claim that such benefits or privileges have been diminished or reduced may be processed as provided in Article . . . , Section . . . , of this Agreement, and if not resolved thereunder by the parties may be submitted to arbitration as provided in Article . . . , but in any such case any decision or action of the Company shall be con-

trolling unless shown to have been discriminatory or in bad faith and only the question of bad faith or discrimination shall be subject to the grievance procedure or arbitration.

* * *

If, during the term of the Agreement of which this Plan is a part, any differences which shall arise between the Company and any employee who shall be an applicant for a pension under this Plan, as to

(*a*) The number of years of actual continuous service of such applicant (as the term "continuous service" is used in this Plan) in the employ of the Company; or

(*b*) The age of such applicant;

such differences may be taken up as a grievance in accordance with provisions of Article VIII of the Agreement above referred to beginning at Step 3 thereof. If any such grievances shall be appealed to an arbitrator in accordance with the provisions of the said Grievance Procedure then such arbitrator, in so far as it shall be necessary to the determination of such grievance, shall have authority only to interpret and apply the provisions of this Plan; it being expressly understood that such arbitrator shall not have authority to add to, detract from, or alter in any way the provisions of this Plan. The decision of the arbitrator on any such grievance which shall properly have been referred to him shall be binding on the Company, the insurance carrier, the Union and the employee. The provisions of this Plan shall be subject to the Grievance Procedure above referred to only to the extent expressly provided in this Section 2.

CHAPTER 14

THE ROLE OF SOCIAL SECURITY

BY JOSEPH M. GAMBATESE*

It's becoming as important to know the score on Social Security as it is at the ball game. Otherwise, you can't figure your pension costs if you have one of the Ford- or Bethlehem-type pension plans.

A significant feature of these plans is that the government pension check is included in the monthly retirement benefit the employer guarantees. So, as these plans are now written in union contracts, that part of the pension paid by the employer is supposed to decrease as the government's share increases.

Actually, you can expect that when these plans come up for revision there will be a strong demand from the labor unions to add any increase in the government pension on top of the amount the pensioner now gets. Some unions not yet signed up already take this position.

You hear this argument: The workers are helping pay for bigger government pensions through a higher Social Security tax; therefore, employers should not enjoy a windfall in reduced pension payments through a tax increase that applies equally to employers and workers.

If Social Security does have a part in your pension planning, as it does in the new plans being signed up, it is more important than ever that you be familiar with certain phases of the government plan.

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First, and most obvious, you should know whether your employees, or which employees, are covered by Social Security. Let's assume they are all covered.

Then you must have an idea how big the government pension will be. What is it today? What will it be tomorrow? In 1970?

There is the age factor. The age at which the government pension begins could make a big difference in your costs. Suppose, for instance, that your pension plan permits retirement at 62. The government doesn't begin paying until age 65. For 3 years you will have to carry the full pension load. Even though the pension your employee gets before 65 may be at a reduced amount, paying for all of a reduced pension may cost you more than your share of a full pension at 65.

How many years will your employees live on pension?

There's the Social Security tax to think about, too. How much does it cost you? Will it cost you more later? How much more? And when? Will the worker share equally in the cost as he has since the beginning? Or will the full burden, or most of it, be shifted to the employer?

These are just some of the points to think about when you are tying government Social Security into a pension plan.

The Social Security Act of 1935, as amended in 1939, has several parts. We are concerned here with the part called "Old-Age and Survivors Insurance" and only with the old-age insurance phase of it. Other parts provide unemployment insurance, public assistance to the needy, and services for child welfare.

Primary objective of old-age insurance is to give the worker the opportunity to protect himself and his family against the hazards of old age. Three basic principles in the plan are that:

1. It be contributory on the part of the worker and employer,

2. The amount of retirement benefits be related to the workers' earnings, and
3. The benefits be paid irrespective of need.

Thus far there has been no suggestion from any responsible source that those principles be changed. They were affirmed in 1949 by the House and in 1948 by the Senate Finance Committee's Advisory Council on Social Security, headed by the late Edward R. Stettinius, Jr. They will be retained in any changes coming out of the 81st Congress.

COVERAGE

Not all workers are covered by old-age insurance. Only three out of five workers—about 35,000,000—fill jobs which will entitle them to government pensions. In which group do your employees fall?

If you are engaged in private industry or commerce, your employees are covered with a few possible exceptions.

The exceptions include certain persons engaged as outside salesmen, driver-lessees of taxicabs, insurance salesmen, and others working on a commission basis. They were excluded by the Gearhart Resolution passed by Congress in 1948. The purpose of the resolution was to reverse the rulings of the Bureau of Internal Revenue and a decision of the Supreme Court, which held that these persons were "employees" covered by the government's pension program.

If you are engaged in agriculture or operate a religious, charitable, or other nonprofit organization, your employees are not covered. Also exempted are domestic servants, the self-employed, and employees of federal, state, and local governments. Railroad workers come under the Railroad Retirement Act.

The tendency of the government will be to extend the benefits of the retirement program to more workers. The rapid growth of private pension plans in recent years has intensified the feeling that workers should not be denied pensions, particularly under a government program, because of the type of work in which they are engaged. So there will be a gradual extension of the benefits to more and more workers.

The Social Security amendments passed by the House in 1949 in H.R. 6000, and under consideration in the Senate this year, would bring about 11,000,000 additional persons under the law.

The House bill follows the recommendations of the Stettinius group up to the inclusion of farmers and farm workers. The bill would not include them, but would include workers engaged in food processing. Also, it would include self-employed persons other than certain professional classes, regularly employed domestic servants, employees of state and local governments under voluntary contracts, employees of nonprofit organizations, and a few other minor groups. The effect of the Gearhart Resolution would be nullified, thus restoring the government retirement rights of outside salesmen and others working on commissions.

SIZE OF PENSIONS

How big are the government pensions? Or how much of your pension load will the government carry?

The size of the monthly government check will vary for each retired worker. If your retiring employees are like the average group, the average amount of the checks will be about \$26 today. Some may get as little as \$10, the government's minimum benefit. Most will get more, of course.

But the highest primary benefit today can't be more than \$45.60. That is because of the way the government benefit is

figured. To get the $45.60 a month. the pensioner must have earned an average of at least $250 a month in a job covered by Social Security for the 14 years since January 1, 1937, that the law has been in effect.

At this rate, a worker covered by the law 40 years and earning an average of at least $250 a month in each of the 40 years would get a government pension of $56 a month in 1977.

We have not mentioned here the benefits paid to a pensioner's wife (if she's 65) or his dependent children under 18 years. These benefits are irrelevant under most private pension plans going into effect which include Social Security. That is because these plans take into account only the pensioner's primary benefit.

The government issues separate checks to eligible wives and dependent children, and these usually are not taken into consideration in figuring the Social Security share of the private pension plan. A wife's or dependent's benefit is half the primary benefit paid to the pensioner. Total family benefit may not be more than double the primary benefit, and not more than $85 or 80 per cent of the average wage.

In this connection, it should be clear in your plan whether only the employee's government pension or his entire family benefit is to be deducted from the pension your plan guarantees to pay.

At this stage, then, and with the present law, the government check to your pensioned employees—if they are an average group—will be $26.

The amount will be higher in future years. This will be due largely to liberalization of the Social Security program by Congress.

But it will also result, to a lesser extent, from the additional years of coverage and from workers' higher earnings.

As workers accumulate more years of service and their earn-

ings continue to rise, they will get larger checks when they retire even if no change is made in the present formula for computing benefits.

PROSPECTIVE INCREASES

It is fairly certain, however, that Congress will increase the retirement benefits. The House bill gives you an idea of what Congress has in mind. It is estimated that, under H.R. 6000, the $26 average primary benefit being paid to persons already on the pension rolls would jump to $44, a rise of 70 per cent.

But more important to the employer with a new pension plan is that persons retiring after H.R. 6000 goes into effect—if it passes without change—would during the first year get an average primary benefit of from $50 to $55. The maximum benefit available to a worker retiring in 1950, under the proposed change, would be about $65 instead of $45.60. That is because of proposed changes in the formula for computing the benefit. For one thing, the formula would give greater weight to a worker's average monthly wage and to low-bracket wages in particular. Years of service would get less consideration. Also, the method for determining a worker's average monthly wage would be revised in his favor, and the wage base and benefit ceiling would be raised.

The formula for figuring the worker's retirement benefit has been unchanged since the government began paying benefits.

First you must find the "average monthly wage." Here's how:

Take all the worker's earnings (up to $3,000 a year) in jobs covered by Social Security from January 1, 1937, until the calendar quarter in which he files his claim for government pension, providing this occurs after he is 65 and "fully insured."

Divide the total earnings in covered employment by all the months elapsed, including those in which he did not work or

worked in jobs not covered by Social Security. That will give you the "average monthly wage." Thus, time spent in work not covered by Social Security brings down the average.

(You may use an earlier cutoff date, providing it is after the worker is eligible for a pension, if it will yield a higher pension. In other words, a worker's average need not be reduced because of smaller earnings after he is 65. Likewise, the average may be revised upward because of higher earnings after 65. A working period which will yield the highest average monthly wage may be used, so long as the eligibility test is met.)

The "average monthly wage" is the key to determining the amount of retirement benefit. You take 40 per cent of the first $50 of the average wage, which is $20. To that you add 10 per cent of the remainder, up to $200, or a maximum of $20. That will give you your basic benefit, to which is added 1 per cent for each year of "covered" work. Wages over $250 a month are ignored.

The chief criticism against today's Social Security benefits is that they are geared to 1939 conditions and that they should be liberalized to reflect the increases in living costs and wage levels that have occurred since prewar days.

Attention is also called to the fact that more and more elderly persons, finding their retirement benefits inadequate, are leaning on old-age assistance. Old-age assistance is noncontributory and is payable to needy persons no longer employed. There are more persons getting old-age assistance than old-age retirement insurance. Average payments under the assistance program have more than doubled while insurance benefits have not risen noticeably. Increasing the retirement pension is seen as one way to reduce the reliance on old-age assistance.

Workers' earnings have more than doubled since the prewar period. That's one reason why the ceiling on taxable

wages is being raised. For 13 years it has been limited to $3,000 a year. President Truman thought it should be $4,800. The House raised it to $3,600.

A higher tax base provides a higher taxable average wage for persons earning more than $250 a month. On top of that, the House bill would accelerate computation of the benefit so that greater weight would be given to the amount of wages and less to years of service, thus benefiting workers who are unable to acquire very many years of service before they retire. This would help, particularly, workers near 65 who may be covered by the law this year for the first time.

NEW PENSION FORMULA

The proposed new formula, furthermore, would give a much larger percentage benefit to those in the low-wage bracket.

This is how the present formula and the one proposed in H.R. 6000 differ:

The rule has been to start building the benefit with 40 per cent of the first $50 of the average monthly wage, or $20. The House bill starts out with a bigger chunk—50 per cent of the first $100, or $50.

Then, it has been the rule to take 10 per cent of the average wage above $50 and up to $250, which is 10 per cent of $200, or another $20 for those whose average monthly wage reaches the maximum $250. The House proposal would take 10 per cent of the average wage above $100 and up to $300, which is 10 per cent of $200, also $20 as in the case of the present law.

For a man having a $300 average monthly wage, then, he would get a "basic benefit" of $40 under the law and $70 under the House bill. If his average were $250, he still would get $40 today but would get $65 ($50 plus 10 per cent of $150) under the House bill.

Thus far we have not mentioned the differences in two other factors which go into figuring the government retirement benefit. One is how the "average monthly wage" is computed. The other is the allowance for years of coverage.

Under the present law you get the "average monthly wage" by dividing a worker's total taxable wages by the number of months since January, 1937. Months in which the worker did not work or worked in uncovered, nontaxable jobs thus reduce the average wage. A simple example: A man who averaged $100 a month over 10 years, but worked only five of those years in jobs under Social Security, would have an average wage of $50.

The House proposes a different method. To get the average monthly wage, it would divide the taxable earnings by 12 times the number of years in which they were earned. Allowance for periods of work in uncovered jobs would be made by application of a "continuation factor."

The "continuation factor" is the quotient, or fraction obtained by dividing years of coverage by the number of years in the period elapsed since January, 1937. It is never more than one.

The purpose of applying this "continuation factor" would be to establish a more proportional relationship between the benefits paid a worker who worked continuously in a covered job and one who worked only intermittently.

The quotient is applied to the "basic benefit." Take the example above where the man earning an average of $250 a month would get a "basic benefit" of $65. Suppose this man had worked only 6½ of the 13 years in covered work. Then his quotient would be 6½ divided by 13, or ½. Then his *benefit,* under the proposed method and before applying the annual increment, would be cut in half, or to $32.50.

Under the current method of adjusting for periods of un-

covered work, the average *wage* would be cut in half. and then the benefit formula applied. This would give him a benefit of $52.50 if you used the proposed computation; that is, if you cut the average wage from $250 to $125, then took 50 per cent of the first $100 ($50) and add to it 10 per cent of the remaining $25 ($2.50).

Thus, persons who shift between covered and noncovered jobs have lower benefits, but not proportionately lower, than those who remain regularly in covered employment.

For example: A man who works all 40 out of a possible 40 years in covered employment at $100 a month gets a benefit of $35. Another man who works only 20 of the 40 years in covered work, at the same $100 rate, would have an average wage of only $50 for benefit purposes, but would receive $24 in benefits. This is two-thirds as much benefit as is received by the first man, although he worked half as long in covered work and contributed half as much in taxes.

Use of the "continuation factor" would give the second man about half the benefit received by the first man. This would be more in proportion, since he contributed half as much.

Annual increment under the House bill would be less. Instead of adding 1 per cent of the "basic benefit" for each year of covered employment, it would allow only one-half of 1 per cent. This puts less emphasis on the duration of covered work. In the House proposal, the amount of increment would be computed before the "continuation factor" quotient is applied to, and thus reduces, the "basic benefit."

A "year of coverage" is now a calendar year in which earnings from covered employment are at least $200. Under a new law this figure would probably be doubled to $400.

Finally, the retirement benefits will be higher because of increases in the minimum and maximum payable by the government. The minimum has been $10. It will be around $25.

The family benefit limit will be around $150 instead of $85.

QUALIFICATION FOR BENEFITS

So much for determining the amount of Social Security retirement benefit. What about eligibility? This can be important in your planning.

Suppose, for instance, John Smith in your toolroom retired at 65. Under your pension plan you guarantee him $100, including his Social Security. In the average case today this amounts to $26, so you make up the difference, $74.

Suppose, further, that Smith finds the $100 a month inadequate or he prefers to keep busy. He has a friend running a small tool shop and takes a part-time job paying, say, $100 a month, or even as little as $50.

Do you know the government will cut off his benefit? Does your plan protect you in such a situation? Or will you have to continue paying the $100 pension without the $26 share by the government?

To receive a Social Security pension in the first place, a worker must be at least 65 and "fully insured." Once he begins getting the pension, it will be withheld from him—because he has become ineligible—in any month in which he earns $15 or more in a job covered by Social Security. The benefit will not be affected, no matter how much he earns, if it is in an "uncovered" job, such as with a government agency or nonprofit organization.

The limit that a retired person may earn in a month on covered work without losing his pension benefit will be higher under a new law. Now he loses his benefit as well as those payable to his dependents for any month in which he earns $15 or more.

This may be raised to about $50 and no limit put on the

earnings of a retired person who has reached 75. The intent is to enable pensioners to supplement their Social Security benefits to a greater extent than they are now permitted to do.

If you pension him before he is 65, the government won't carry any of the burden until he reaches that age.

To be "fully insured"—another requirement for getting a government pension—a worker must have earned $50 or more in "covered" work in at least half of the calendar quarters that occur between January, 1937, and the quarter in which he reached 65. You count the January–March quarter of 1937, but not the quarter in which he becomes 65. Once the worker has 40 "quarters of coverage" he is fully insured for life.

In other words, workers who were employed steadily in covered jobs continuously from the first quarter of 1937 (when old-age retirement became effective) became fully insured 10 years later. Under present law they will be eligible for a retirement benefit when they are 65 even if they never work again in a job covered by Social Security. Of course, their benefits will be reduced as their earnings in "covered" work are spread over a longer period of time, thus reducing their average monthly wage on which the benefit is computed.

The 65-year age rule for the worker will probably continue because of the increased cost of starting the pension benefits at an earlier age. If retirement were begun at 60, the period over which the government would have to pay benefits would be increased 25 per cent. At the same time, Social Security tax would be paid for 5 years less.

TAX INCREASES

Old-age and survivors insurance is financed by a payroll tax. The employer and the worker each contribute 1½ per cent, or a total of 3 per cent, on pay up to $250 a month, or $3,000 a year.

Until last January 1, the tax was 1 per cent for each from the very beginning in 1937. The tax was supposed to have risen, under the original law, to 1½ per cent in 1940, 2 per cent in 1943, 2½ per cent in 1946 and 3 per cent in 1949. Congress always took action, however, to prevent the tax from rising above 1 per cent. The last time, in 1947, it provided that the tax would be 1½ per cent during 1950 and 1951 and 2 per cent thereafter. That is where it stands.

This will be altered, of course, as the Social Security benefits are liberalized. There is no serious talk of changing the contributory feature, with both employer and worker kicking in alike. But it's certain that the tax will have to rise above 2 per cent to support the increased costs.

The House would hike the tax to 2 per cent January 1, 1951, and leave it there until 1960. It would then go up to 2½ per cent and stay there for 5 years. For the next 5 years after that it would be 3 per cent, and rise to 3¼ per cent in 1970.

It is claimed that such a tax schedule would make the system self-supporting, or actuarially sound.

Old-age and survivors insurance funds are in a trust fund which is invested in U.S. Government securities. There was $12 billion in the fund at the beginning of 1950.

Benefits being paid total about $600,000,000 a year, with administrative costs running around $50,000,000. There are 2,600,000 persons drawing benefits. Half of them are retired workers; half are wives and dependent children. Another 1,000,000 workers are eligible to draw pensions but are not doing so because they are working. More of this group will switch to the retirement rolls as they are able to get higher pensions either from the government alone or combined with a private pension.

THE UNION POSITION

Top labor leaders do not want the government old-age insurance to replace the pension obtained from private industry, or *vice versa*. They consider that one supplements the other.

In their mind the government pension is a cushion for the private pension. It provides something for the worker to fall back on if he loses his private pension for one reason or another. He may not be with one company long enough to earn a pension. (That's one reason why the unions are shooting for area or industry pension plans, or for plans giving the worker a "vested" interest in a pension so he can take his pension credit with him when he moves from one job to another.) Or the company may go out of business.

Economists and Social Security experts in the government expect that the unions' success on the pension front will stimulate Congress into providing larger retirement benefits and for more workers. The idea being to do something for the worker who does not get a private pension, perhaps because he is employed in a small firm that cannot afford one.

There is a feeling, too, that the amount of Social Security retirement benefits should not be held down because of the $100 monthly pensions negotiated by many unions. These pensions are concentrated in the more prosperous and larger companies with strong unions and are not generally available to workers in less prosperous industries. Workers in these industries normally also have lower earnings and therefore have greater need for a more substantial government benefit.

Will the government eventually take over all pensions if the private plans become too burdensome for industry?

There is some sentiment for the government taking them

over so that all workers might be treated alike whether they work for this employer or that one, in this industry or another, or whether they join a union or don't join one.

There is always a possibility the government might take over the pensions, but not in the foreseeable future.

There is precedent in the railroad industry. The government, in passing the Railroad Retirement Act in 1937, bailed out the railroads and the Railroad Brotherhoods at a time when many of their pension plans were going on the rocks.

You will recall, also, that the government, not the mine owners, started the coal miners' welfare and retirement fund when it had possession of the mines in 1946. Then why shouldn't it assume some responsibility for keeping it solvent?

If this happens in the railroad and coal industries, what is to prevent it from happening in steel, automobile, and other basic industries if the need arises?

It could happen.

CHAPTER 15

PREPLANNING FOR NEGOTIATIONS

If we had been tackling the pension problem from a strictly chronological point of view, "Preplanning For Negotiations" would have been one of the very first chapters in this book. But just as you don't start preparing food for a midnight snack until you have surveyed what's in the icebox, you don't start your preparation for pension negotiation until you have had time to familiarize yourself with some of the problems that you will face.

One thing that has been mentioned several times is the need for competent, technical advice in planning a pension. Where do you turn for that advice? And more important, how do you evaluate the advice you get?

INSURANCE COMPANIES

If the probable size and coverage of your plan is such that you might reasonably finance it through group annuities or group permanent insurance, you will find an insurance company representative ready to discuss your pension problem and to advise you on the ways in which his company can help you solve it. He will be familiar with all of the financial ins and outs of insured pension plans and frequently can help you avoid pension pitfalls by citing the experience of other (unnamed) companies whose situations parallel yours. Although probably not a qualified actuary (in the strict sense of that phrase), the insurance company representative will

be sufficiently familiar with pension cost factors to be able to give you reasonable cost estimates. Obviously, he has the resources of the home office available to him and can call on them for complete actuarial service when necessary.

The insurance company representative is not a salesman in the ordinary sense of the word. He could more properly be likened to the industrial sales engineer. He is trying to sell something, to be sure. But he is not selling a stock item by any means. He is a qualified, capable man who, with the aid of his home office, can design for you a piece of machinery to fill a particular need.

Bear in mind that not all insurance companies sell exactly the same types of policies. And there are variations in rates from one company to another. Similarly, the particular background and experience of the individual insurance company representative will color somewhat his recommendations on the plan that is best for you. When you're still in the early stages of the planning game, it will probably be sufficient to go into the pension problem in detail with a representative of just one company. When you really come right down to it, and you are ready to make a decision, you would not be being fair to yourself if you did not give several other insurance companies an opportunity to present their cases.

Sometimes the answer to the question of how best to handle your pension plan will be so clear cut that even an insurance company representative could only recommend a trust-funded plan or a plan insured through a medium his company cannot provide. Far more often, a choice will be available. There is seldom only *one* answer to a pension problem. In that situation, it is not unnatural for an insurance man to favor an insured method of financing, or for a representative of a particular company to think that his firm can do it better than any other. You would want your salesmen to have the same

attitude. Actually, this can work to your advantage if you will take the time and trouble to hear all the conflicting points of view expressed. The pension representative of one insurance company feels so sure of the advantages of the insured method that he offers his prospective clients this advice: *"When you have made up your mind to put in an insured plan, call in a representative of a trust company and have him tell you why you shouldn't."*

INSURANCE AGENTS

The small company, and particularly the company that is thinking of insuring its pension through individual policies, will probably deal through an independent agent or agency. The individual agent, too, will be able to call on the home office for whatever assistance he needs. But you have no assurance that just *any* agent will understand the problems of pensions and be able to deal with them capably. Just as a matter of self-protection (which a reputable agent will in no way resent), you will want to do some checking up to find out about the man's qualifications for advising you on pension matters.

Keep this in mind: If there is any possibility of a choice between individual policies and group policies, the agent is quite likely to favor the individual policy. The reason is simple: An agent's commissions on individual policies are several times as big as they are on group policies. But you shouldn't get scared off from dealing with the individual agent on the theory that his larger commissions mean higher costs to you. It's a little difficult to put a dollar sign in front of it; but a close continuing relationship with an individual agent can relieve you of a tremendous number of headaches. With a small compnay, the agent will probably be willing to do a fair share of the pension bookkeeping for you. Older em-

ployees, particularly, will appreciate the opportunity of being able to talk directly with a representative of the insurance company about such problems as settlement options. And the agent will usually be only too glad to take on the job of answering questions about the pension plan and the policies issued for any of your employees. (He knows that every employee is a prospective buyer.)

For ease of operation, there is nothing that can beat dealing with an individual agent as far as the small company is concerned. But the company that is on the border line between being forced to use individual policies and being able to use group policies should keep a very careful eye on the cost situation.

TRUST COMPANY REPRESENTATIVES

Some trust companies, although by no means all, are making a real business of handling pension trust funds. A few of the bigger banks are set up to handle pension trust funds on as highly organized a basis as any insurance company. If the potential trust fund for your pension plan is big enough, you will find several trust companies ready to compete for it. Their representatives will be capable men, skilled at pension planning. Some of the banks will go so far as to provide actuarial service for you. Whatever you finally contract for, you will pay for. But during the planning stages, these big trust companies will be competing for your account on the same basis as the insurance companies: final costs and services provided. Just as the insurance man tended to favor the insured plan, so the trust company representative will tend to favor a trusteed plan. Again, you can make this work to your advantage.

The smaller trust company that does not have a pension

department probably won't be able to give you too much assistance in designing your pension plan. Officials of such companies, however, will be able to tell you what financial services they can provide and at what cost. This information, in conjunction with advice from a competent consultant, will place you in a position to decide whether or not you want to set up a trust fund through a smaller institution.

PENSION CONSULTANTS

Before the war, there were only a handful of pension consultants in the entire country. The "pension boom" during the war brought many more into business. A lot of the "weak sisters" dropped by the wayside at the end of the war. Then the ranks of the consultants grew rapidly again during 1949. Some of the newcomers to the consulting ranks are experienced men from the pension departments of insurance companies or from some of the larger industrial institutions. A few are qualified actuaries. Another group has been drawn from the ranks of the tax attorneys.

You really have to divide the consultants into two groups: those who are essentially individual consultants, with a very limited technical staff, or no staff at all; and consulting organizations which are equipped to provide a complete pension service. These organizations are in a position to design a plan for you, supply the necessary actuarial service, provide you with legal advice, recommend the best funding method, and, if the plan is to be of the trust fund form, to oversee the operation of the plan. There are still very few such organizations. The reason is that pensions have been "big business" for so short a time that there is just not enough technically trained personnel in the country to permit the staffing of many such firms. A lot of the men who do have the qualifications

to be on the staff of such an organization have chosen to go into independent consulting.

The individual consultant is generally a specialist in some one line of pension planning. This does not mean he is incapable of rendering an all-round consulting service if you authorize him to obtain such additional technical advice as may be required. If you insist that he try to do the job all by himself, you will be licked before he starts. Actually, the individual consultant probably has some definite advantages for the small and smaller-middle size company. While he does not have the established organization to back him up, he probably has as much all-round capability for handling pension problems as would the "on-the-spot" representative of one of the consulting organizations. It's quite possible you would find yourself getting better service from the individual for the very practical reason that each account will loom up as a much larger share of his bread and butter than might be the case for a representative of one of the big organizations. Obviously, it would be unfair to generalize on that basis Personalities play too large a part in such an equation.

Theoretically, the pension consultant, whether individual or organization, should be in a position to render impartial advice about insuring or funding your plan. If for no other reason than because he knows you will hear the stories of both insurance and trust companies, the consultant will give you the best advice he can. On a hairline decision, however, it is not unreasonable to expect that the consultant would favor the trusteed plan. The reason is simple: Once an insured plan is set up, you will probably have no further use for the services of a consultant. With a trusteed plan, it is very likely that you will want to retain a consultant (particularly so if the consultant is an actuary or can provide actuarial service within his organization).

CONSULTING ACTUARIES

It was not many years ago that an actuary who was not in the employ of one of the insurance companies was about the rarest bird you could find. He is still by no means common. In all, it is estimated that there are less than 1,000 fully qualified actuaries in the United States today, and most of them are still with the insurance companies. A few, however, have left to join firms of pension consultants or to go into business for themselves. In some cases, these consulting actuaries are prepared to render a full pension consulting service. More often, they provide only the actuarial consultation that is required.

One thing should be clearly understood: From a financial point of view, your choice of an actuary can make or break your plan. Faulty actuarial assumptions can result in a gross understatement of cost. As things stand today, you can look at any of a dozen mortality tables and get a dozen different estimates on how many of your employees will live to be 65 and how long they will live thereafter. You will find a variation of more than 25 per cent from one table to another. The actuary you choose must be not only in a position to determine what mortality statistics to use as a base for your plan, but how to modify those statistics to take into consideration probable future improvement in mortality. The big difficulty is that all existing mortality statistics are based on past experience. Yet you will have to pay pension costs based on future experience. Even with a competent actuary, there are some big risks involved; without one, you're licked.

INSURANCE BROKERAGE HOUSES

There is one other source of pension and actuarial advice available to many companies that has not been too widely

used in the past. There would seem to be good reason why it should be used more in the future. This is the large insurance brokerage house. Some of these firms retain competent actuaries and pension consultants.

Where they do, you may be able to obtain their help in setting up a pension plan on this basis: If you set up a trusteed plan, you pay their fee outright; if you decide on an insured plan, the commissions which the firm collects from the insurance company will be credited against your fee.

The number of firms that are in a position to render such service is limited. Therefore, it is not possible to report how satisfactory this type of arrangement might be. It would seem. at least on the surface, an almost ideal solution to the problem of getting impartial service and advice on pension planning.

COLLECTING STATISTICAL DATA

When you start thinking about a pension plan, what are the first things you want to find out—even before discussing such matters as size of benefits, retirement age, type of financing, and so forth?

You will want all the information you can get about your employees on these five subjects: (1) employee earnings, (2) employee ages, (3) length of service, (4) withdrawal rates, (5) disability and mortality rates (if your company is large enough and old enough to have developed an experience of its own).

Some of this information you will have to turn over to the union if the union makes a pension demand. All of it will have to be placed at the disposal of an insurance man, a trust company man, or a consultant, if you hope to get an estimate of probable cost. You should have it available to guide your own thinking before you have to do any of those things with it. You probably won't know in advance whether your pension

plan will cover just the bargaining unit, all hourly paid employees, or all employees. Therefore, you will probably want to develop the information for at least those three groups, and possibly for other groups if there are other logical breakdowns that might be followed for setting up separate pension plans.

The charts on pages 248 and 250 show a simple but effective way of assembling the *minimum* amount of data you need *before* you start negotiations. You will need a lot more as your planning progresses. Some of the additional detail required is suggested in the notes to the charts; other requirements will become evident as you go along. One thing you can be sure of is that none of your energy used in preparing these charts will be wasted.

It should be mentioned that most tabulations of employee data being used at the present time are based on a different age breakdown from the one used in these charts. The usual arrangement is to group employees in 5-year age groups by one of the two following patterns: 20–24, 25–29, 30–34, etc.; or, 21–25, 26–30, 31–35, etc. In one case, the *average* age of the group is 22, 27, 32, etc.; in the other it is 23, 28, 33, etc. For preliminary (very rough) figuring, this means you can't deal in terms of "years to retirement" in periods that are 5-year multiples. To avoid this difficulty, the charts call for the following patterns, 18–22, 23–27, 28–32, etc. Note that the average age of the groups is 20, 25, 30, etc. The tables for approximating pension costs in Appendixes 7 and 8 are based on employee ages in multiples of 5 years. With the information assembled in these charts, you can use the approximating tables to get a fairly good idea of what a simple pension plan of any of several types is likely to cost.

But keep this in mind: The principal purpose in making your own cost estimate is to provide a bench mark. Estimates made by a union, by an insurance company, or by a con-

PRENEGOTIATION PLANNING CHART—PART A

Column	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Age	*Number of employees*	*Average earnings (monthly)*	*Average earnings (yearly)*	*Average length of service*	*Average total earnings to date*	*Total earnings of group to date*	*Average per cent withdrawals per year*	*Per cent surviving to age 65*	*Per cent retiring at age 65*	*Disabilities per 1,000 per year*
Company average ( )										
Over 70										
70										
69										
68										
67										
66										
65										
63–64										
58–62										
53–57										
48–52										
43–47										
38–42										
33–37										
28–32										
23–27										
18–22										

Notes for Part A of Chart

Column 1. Unless the percentage of females is very low, separate tabulations should be made for males and females.

Column 2. Use base rate pay for normal full month.

Column 3. Use base rate times average number of hours (not including overtime but including paid vacations and holidays) actually worked during year by each group.

What would the result be if you developed separate figures for earnings of less than $3,000 a year and earnings in excess of $3,000 a year? (Use whatever figure is set as top limit of new Social Security coverage.)

What are average earnings for the 5 per cent of employees with the lowest pay rate in each age group?

What are the *exact* earnings of the 25 highest paid employees, regardless of whether they would be covered in any plan?

What are the exact earnings of any employee who owns more than 10 per cent of the voting stock?

Column 4. Use years of continuous employment, assuming that any break of less than 3 months does not constitute an interruption of service.

What would the figures be if you permitted breaks of 6 months or a year?

What would the figures be if you used "years of seniority"?

What would the figures be if you included only service after age 25, 30, or 35?

Column 5. May be approximated as 3×4, if figures for earlier years are not readily available.

What would the figures be based on alternative computations of column 3? Of column 4?

What would be average total earnings at retirement if you allowed only three-quarters as much credit for past years as for future years? *Formula:* For employees 65, $(0.75) \times 5$; for employees under 65, $(0.75) \times 5 + (65 - \text{age}) \times 3$.

Column 6. May be approximated as 1×5.

What would the figures be based on alternative computations of column 5?

What will be total earnings of the group to retirement? For employees under 65, use $6 + (65 - \text{age}) \times 1 \times 3$.

What would this figure be if you allowed only three-quarters as much credit for past years as for future years? For employees under 65, use $(0.75) \times 6 + (65 - \text{age}) \times 1 \times 3$.

Column 7. Include voluntary quits, permanent layoffs, and discharge for cause. Do not include separations due to death.

When point is reached in descending scale where rate significantly exceeds company average, get separate rate for each 1-year age group.

What is the rate by various causes?

Column 8. If your company is old enough and large enough, use percentages based on your own experience. If this is impossible, use industry experience (if available) or a selected mortality table.

Column 9. May be estimated as $1 \times 7 \times 8$ for uninsured or deposit administration plans. For insured plans, first year cost will be based on 1×8, with cost in subsequent years approaching an amount based on $1 \times 7 \times 8$ due to recovery of premiums on withdrawal.

What would the figures be if you used alternative computations of column 7?

What would the figures be if you used different mortality tables in computing column 8?

Column 10. If your company is old enough and large enough, use data based on your own experience. Otherwise, try to get data for your industry or a similar industry.

PRENEGOTIATION PLANNING CHART—PART B

Column	*11*	*12*	*13*	*14*	*15*	*16*	*17*	*18*
Years of service	*Number of employees*	*Average age*	*Average age of employees under 65*	*Average earnings (monthly)*	*Average earnings (yearly)*	*Average total earnings to date*	*Total earnings of group to date*	*Average per cent withdrawals per year*
Company average ( )								
Over 42								
38–42								
33–37								
28–32								
23–27								
18–22								
13–17								
8–12								
6–7								
5								
4								
3								
2								
1								
Less than 1								

Notes for Part B of Chart

Column 11. Unless the percentage of females is very low, separate tabulations should be made for males and females.

What per cent of total would be eliminated by an eligibility requirement of 1 year's service? 2 years'? 5 years'?

Column 12. Are figures for employees with less than 2 or 3 years' service truly representative of your normal average hiring age? If not, what is your normal average hiring age? Be sure to develop a complete set of figures based on average hiring age.

How many employees in each service group are 65 or older?

Column 14. Use base rate pay for normal full month.

Column 15. Use base rate times average number of hours (not including overtime but including paid vacations and holidays) actually worked during year by each group.

Column 16. May be approximated as 15 times years of service. For years of service, use median of group (*i.e.*, for 33–37, use 35).

What would the figures be if first 1, 2, or 5 years of service were not counted?

What would be average total income to retirement for employees not yet 65? Use $16 + (65 \text{ years} - 13) \times 15$.

What would this figure be if you allowed only three-quarters as much credit for past years as for future years? Use $(0.75 \times 16 + (65 \text{ years} - 13) \times 15$.

Column 17. May be approximated as 11×16.

What are total earnings to date of employees already over 65? Multiply number of such employees by 16.

Column 18. Include voluntary quits, permanent layoffs, and discharge for cause. Do not include separations due to death.

When point is reached in descending scale where rate significantly exceeds company average, get separate rate for each 1-year group.

What is the rate by various causes?

sultant will differ from the one you arrive at. You will then be in a position to insist that any deviations from your estimate be explained and justified. This process may bring to your attention cost factors you hadn't considered. It *may* disclose that the other fellow's estimate is based on faulty assumptions.

PART THREE

THE HUMAN PROBLEM

CHAPTER 16

IT'S THE EMPLOYEE WHO COUNTS

The course of collective bargaining negotiations over the last 15 years has tended to subordinate the importance of the individual employee and his desires. In such dramatic cases as those of the coal miners and the steelworkers, we have seen collective bargaining virtually degenerate into a power play between large groups of employers and politically minded union leaders. While it is a dangerous generality, it would not be too difficult to support the contention that many employers have come to regard collective bargaining negotiations as an attempt to placate union leaders rather than as an attempt to improve the "wages, hours, and other conditions of employment" of the employees in the bargaining unit. The result has not been a happy one as it pertains to the field of collective bargaining generally. It would be particularly unhappy if this same philosophy were carried over into the pension area.

Yet there are indications that this is exactly what is happening. In many cases, employers are agreeing to the establishment of pension funds that are wholly inadequate to support the scale of benefits promised in the contract. The employer who, on expert advice, first rejects a union's proposal as actuarially unsound and then later agrees to the same proposal would seem to be placing himself in an untenable position with both his employees and the community on the day when the law of averages catches up with him and

the plan fails. Because of the nature of collective bargaining negotiations, it is easy to sympathize with the position of the employer who finally agrees to an unsound proposal, but you can be sure that the employees will have very little sympathy for this employer when they are left stranded by the failure of the plan. An important thing to remember is that regardless of whose proposal it may have been in the first place, the employee and the community will look upon the pension program as a *company* responsibility. And they are certain to hold the company and not the union accountable for anything that goes wrong.

It may be recalled that in the fall of 1947, the Ford Motor Company offered its workers a choice between two contracts. Company and union representatives ratified both and left the choice to the vote of the membership. One provided for 7 cents an hour and a pension plan. The other was the so-called second-round "pattern" increase of 11½ cents plus 3½ cents (for paid holidays) an hour. The pension plan was turned down cold. The vote was 53,027 to 16,661.

Some people interpreted this as meaning that workers were not interested in pensions and that they would rather have cash in their pockets. Others saw in it a rebuff to the union leadership (an anti-Reuther faction which was and remains somewhat leftish, although it is not the radical left-wing element in the union).

As a reporter for *Factory Management and Maintenance Magazine,* I had occasion to spend several days at the giant Ford Rouge Plant while the voting was in progress. During the time I was there, I talked with one Ford official (the head of the News Bureau, to get a gate pass) and with dozens of Ford workers. The specific comments made by Ford workers at that time would not necessarily be valid today, because of the differences between the plan which was then offered and those

which are now being demanded by unions. But I came away with one conviction which I have every reason to believe is still valid: Workers are keenly interested in the *details* of a pension plan and want an opportunity to do some independent thinking on the subject of pensions. In fact, they will do it whether invited to or not.

Most union officials, and a good many management men, take the stand that most workers have no interest at all in what pensions cost and that they are interested only in the benefits which are promised. The reason most generally cited for taking this stand is that the mathematics involved in relating costs to benefits is over the head of the average worker.

Four paragraphs from the article "Why Ford Workers Voted Down the Pension Plan," appearing in the November, 1947, issue of *Factory Management and Maintenance* provide evidence that this is by no means true.

> There was one story going the rounds at the Ford Rouge Plant that was having a devastating effect on the younger men who heard it. The man who apparently started this story claims his brother is an insurance actuary. This is how he tells it:
>
> "I'm 20 years old and I've been here a short time. But I'm earning close to the 'average' 1946 Ford wage of $2,234. So I 'contribute' 2½ per cent of that, or $55.85 a year. And I also lose 8 cents an hour, or about $160 a year, figuring fifty 40-hour weeks. In return for that, after 45 years of service, I'll get a pension of $1,005.30 a year.
>
> "But suppose instead I take that $215.85 and buy an annuity from an insurance company—to start at 65, just like the pension. I get $1,430 a year. In other words, for the privilege of buying my annuity through the Ford

Motor Company I would be sacrificing $425 a year. Call your own insurance man and check it."

This story was typewritten on a 3 x 5 card—and it had had a lot of circulation. Almost everyone under 30 with whom *Factory* talked referred to it. So did several older men, although most of them realized that the credit they would receive for past service will give them pensions far in excess of everything they could afford to buy if they started at this late date. [Incidentally, that figure of $1,430 a year is within $10 of the figure you would get by using the rate shown in the table on page 418 in Appendix 7.]

There is no reason to believe that employees in other companies would be less interested in the financial details of the plan than were the workers at Ford. And there certainly is every reason to doubt that a rather important union official was correct when he recently told a company negotiator, "Your employees don't give a damn whether this plan is funded or not. All they want to see is some benefits right here on this piece of paper." Unfortunately, it is not possible to report a happy ending to that incident. The company signed the agreement a few days later on the union's terms. Whether the management did so willingly or reluctantly is not known. But at least four insurance companies and two trust companies refused to handle the plan on the basis that the employer contributions specified were totally inadequate to provide the benefits promised. One of the actuaries who examined this plan made an estimate that under the scale of benefits promised, the fund would be broke within 3½ years.

It would have been interesting to see what would have happened had the management been able to submit to the em-

ployees two proposals: one calling for whatever benefits could be purchased with the contributions agreed upon and the other calling for an increased scale of benefits to terminate in 3½ years. The "Ford approach" of offering employees a choice on a pension plan has a great deal to recommend it. It would be a very healthy thing if it could happen in a few more cases.

Perhaps the closest thing to it that now exists is the situation at the Inland Steel Company. Inland has had a contributory plan for a good many years. At the insistence of the CIO Steelworkers, the company has now established a second optional plan which is noncontributory and which provides a flat benefit of $100 per month. Inland employees will now have an opportunity to participate either in the contributory plan, in which benefits are related directly to wages, or in the noncontributory plan, which provides a flat benefit. The ratio of workers in the various wage brackets signing up for the two plans should be studied carefully by anyone who wants to gather some valuable information on how employees feel about the contributory principle in pension plans.

CHAPTER 17

COMMUNICATING WITH EMPLOYEES ABOUT PENSIONS

BY FRED RUDGE AND ROSCOE C. EDLUND*

What, how, and when shall a company tell supervisors and employees about pensions? This has urgency that perhaps no "communication" problem in industry ever held before. It is full of complexities, difficulties, emotions.

A guaranteed income for one's old age is a prize that everybody wants. Supervisors and rank-and-file employees are as keen for it as are executives. The public likes the idea, too—provided the bill of costs to consumers is not too high.

In the fall of 1949, the dream of guaranteed security for old age assumed new shape and substance. Within a few short weeks, the report of the President's Steel Industry Board, the Ford and Bethlehem settlements, public statements by union leaders and government officials, and a succession of pension announcements by large employers, suddenly made guaranteed old age income from private sources seem near. Millions of employees began to believe that pensions for themselves were at hand.

A minimum of $100 a month for life, beginning at age 65,

* Mr. Rudge and Mr. Edlund are consultants on employee relations. They have pointed out impartially what employers can do to tell employees about pensions either with or without the services of a consultant. Because this field is so new, it is necessary to state more forcefully than the authors have, how very important it is for the employer to obtain the best possible advice and counsel on communicating pension facts to employees.—C.W.B.

looked good, and employers could apparently pay all costs. There need be no burden on employees, consumers, or the public. To industrial workers throughout the country, it all seemed easy, and almost inevitable. The President's Steel Board said the companies in that industry could foot the bill. and the price of steel need not go up.

Moreover, for many companies pensions actually do present great advantages. They provide a method for retiring superannuated employees, advancing younger and abler workers, maintaining morale, and reducing production costs. While in recent years, the growth of pension plans was rapid, now it appeared as if this rate of growth would increase many fold. Everywhere people began to say: "The pattern has been set. Pensions for employees must come—and soon."

LACK OF PENSION KNOWLEDGE

Whatever some managements may have thought about the dream of $100-a-month pensions for life without burden on anybody, they were caught unprepared.

Few companies that felt they could not afford pension plans were in the position to teach anybody what they regarded as the cold facts of life. Little was done—and perhaps under the circumstances little could have been done — to inform people quickly about the staggering costs, the complications, and the risks to individual companies of pension "patterns."

Nobody told supervisors or rank-and-file employees that pensions generally throughout industry would add to costs not millions of dollars a year, but billions.

Few employers ventured to point out how competition in their industries would be affected if certain producers established pensions and others did not. Few pointed out that company and job security might be threatened.

Nobody pointed out that if a whole industry added pen-

sions to its costs, it might price its products out of the market. With pension costs added to the price of coal, who knows how many users switched to other fuels?

SURVEYS REVEAL IGNORANCE

A few weeks after the Ford and Bethlehem settlements, interviewers from our organization talked individually about pensions with employees in a variety of companies, both in supervisory and rank-and-file groups. We found that neither foremen nor employees—nor indeed, many executives—had any idea of the correct answers to such questions as:

What is the cost of an income for life of $100 a month at age 65?
If incomes are provided for retired employees through a noncontributory pension plan, who really pays the bill?
Are a company's pension costs part of the costs of production?
Are there conditions under which a pension plan in a company is dangerous to the job security of its employees? What are such conditions?
Should a company pension plan be actuarially sound? Why? What are the characteristics of such a plan?

The fact is, there still is almost complete ignorance about pensions, their costs, and their potential effect on company—and, therefore, on employee—security.

THE QUESTION MANAGEMENT FACES

In this situation, and with pressure for industry pensions likely to increase even if government Social Security is expanded, management faces a major question of policy:

To communicate or not to communicate; to educate or not to educate?

Let the company ask itself:

"Which is the better risk?

"Shall we thoroughly inform ourselves about pensions, do it now, and determine at least tentatively what our company should do? Or shall we wait until the issue is joined?

"As to supervisors, employees, and community neighbors, will our company—and our employees—be better off if on these pension problems these three groups, or one or more of them, are given all the information we can provide? Or will our company and all of us be better off if ignorance, prejudice, and misconceptions are continued?"

This communication question is equally deserving of the most careful analysis and the formulation of a specific company policy regardless of

1. Whether there's a union, or a group of unions, or none at all, and
2. Whether a company pension plan
   —is an impossibility because of costs, *or*
   —is contemplated by the company, *or*
   —has not yet been bargained for, *or*
   —has recently been established, *or*
   —was installed some time ago but has never been thoroughly "merchandised" so that it is not completely clear to all.

OBSTACLES TO COMMUNICATION

At the outset it must be realized that in many companies there are obstacles to employee "communication" as a general practice, let alone on a complicated, emotional subject such as provision for old age.

Relatively few managements, outside of the most progressive, think in terms of attitudes of supervisors and rank-and-file employees as being factors of major importance. Moreover, management generally is unskilled in communication; is reluctant to make commitments through communications; and fears what the union (or unions) will think about, or will do with, company communications. And there are not a few managements who seem to prefer always to let sleeping dogs lie.

Specifically as to pensions, some of the management attitudes that present obstacles to company communication are: "We've not communicated before—how can we begin now? . . . On this issue particularly, let's not put ideas in our employees' minds. . . . The pension subject is too complex to explain, too mixed up with prejudices. . . . Anyhow, we had better work it out with the unions behind closed doors." And so on and so on.

THE CASE FOR COMMUNICATION

Alert management to an increasing degree, however, is realizing the absolute necessity of informing supervisors and employees in order to win understanding, cooperation, and participation. This is essential, it is recognized, both for the sake of the individual company's operations, and for the continuation of private enterprise as opposed to an encroaching welfare state.

As to pension communication, alert management begins to appreciate that:

1. A clear understanding on the part of supervisors and employees, and in many cases on the part of community neighbors, will assist materially in the conduct of union negotiations and in final acceptance of the company's position;

2. When a new pension plan is installed, its features can be merchandised and employees led to understand more fully the great value of the benefits it confers;
3. And where a satisfactory pension plan already is in existence, if its provisions, costs, and benefits have not been fully and constantly explained, a good communication program can win for the company the credit which is due it.

TALKING ABOUT PENSIONS

Assume, then, that a company which has at present no pension plan, decides to begin a program of employee information and education. What basic principles must be kept in mind?

Let the company realize that communication about pensions is practically a brand new field, particularly since the new "patterns." There is little experience to guide; everybody has much to learn.

Let the company realize, further, that most pension experts think mainly in actuarial, legal, and administrative terms. Figures and facts which these technicians provide must be clothed with flesh and blood. They must be translated into terms that deeply concern the human interests of supervisors and employees as people: Just *folks* interested in their own welfare. It is in minds and hearts, not in charts and tables, that the subject must "come alive."

Supervisors and employees must *feel* that the employer is deeply and sincerely interested in *them*. Whether the employer is for or against pensions as such, is much less important than that he shall clearly be deeply concerned with what is best for everyone in his employ.

If communication is something really new to your com-

pany, your silence in the past need not keep you from talking now. Be especially careful, however, in what is said and how you say it, both now and as you continue communication in the future. You don't want your employees to feel that you talk things over with them only when there's a crisis. Keep on telling them the story of their company after the pension crisis has passed. In short, make communication a continuing company policy.

FIVE-STEP PROGRAM

1. Assign to this program the most human communication talent the company can command. The chief executive officers of the company should never be far removed from active personal connection with communications on pensions—and the person who actually guides the program should be someone who is both able and human, experienced in communication if possible, but certainly interested in people.

2. Find out through personal interviews what your managers, supervisors, union people, and employees believe, think, and feel about pensions. You can have a skilled research agency make such a survey. Or you can do the job through individual interviews arranged within your own organization. Sound out what employees at all levels think and feel on this subject in relation to your own company and the competitive, financial, and other conditions under which you operate. Obviously these findings will condition how you proceed on your communication program.

3. Decide, to the degree possible, what your company's position as to a pension will be. Why? Necessarily your program should be built around the position on pensions which your company is going to take. What that position is, you may not want to state—in full, at least—prior to develop-

ments at the bargaining table. Nevertheless, it necessarily will determine what you wish to accomplish and what you will say in all employee contacts and messages.

Nothing beats person-to-person meetings and discussions. It's important, however, to go from top to bottom.

4. When your company's position has been decided upon, be sure to read all members of your executive group into the act. Discuss with them all the reasons behind the company's decision. Mention all aspects of your proposed information program, and the part each executive will play in making it effective.

Do the same with middle management. And with lower supervision. Employees will receive their continuing impressions of the company and its position on pensions directly from their foremen or assistant foremen. That is why it is so essential for first-line supervision to know what the company's position is—and the company's reasons for making this decision. Make each individual in management feel that he persionally is part of the communication chain.

Follow this with individual or group meetings with international and local union representation.

With rank-and-file employees, start also, if possible, in face-to-face meetings.

5. This step comes after communications are well begun through such discussions. You are then ready to reach your people through the written word. But, within reason, continue occasional face-to-face meetings, always, of course, on company time and with full opportunity for question and answer. This is the best method for getting any subject thoroughly aired, and it can't fail when supervision is informed, and when followed up by letters or bulletins covering clearly the ideas thus discussed.

Dear Employee:

What is your best security for old age?

Isn't it a steady job through the years? A steady chance to earn and save?

This Company wants every one of us to have jobs that are as steady as possible. As far as lies in our power, we want you to be secure now, next year, ten years from now, and (if possible) in your old age, too.

Can we have both? That is, can we keep our jobs steady and secure, and also have pensions for your old age?

Well, it's a question of costs. To provide money that will come every month, rain or shine, to an employee grown old in the service, costs a lot. You can set aside money for such a purpose more easily in prosperous years of good earnings and profits than you can in lean years when business is bad and when the Company may be running in the red.

But no matter when you set the money aside, it has to be in large quantities if you are to take care for many years of every employee who grows to be 65 or so.

Setting aside money in large quantities means adding to our costs. The minute we add to our costs, we have to add to the prices we charge our customers. That makes it harder to sell what we produce. If we sell less, then we have fewer jobs. That means that the costs of a Pension Plan may make all our jobs less steady and secure.

Letters to employees should stress *their* interests rather than those of the

If we add to our costs a big expense like pensions, and if we get our costs higher than those of our competitors, what do you think will happen to us? The answer, of course, is that if we get too far out of line on competitive costs, our Company might not be able to go on at all. What, then, would happen to our jobs, to our security, and to us in our old age?

When you start a Pension Plan, you add a cost that goes on and on every year; otherwise your Pension Plan is no good. You can't reduce your Pension Plan to meet some competitor who suddenly begins to take away your customers. You can't reduce your Pension Plan because depression comes. Your Pension Plan is a "fixed" cost. In a succession of bad years, the cost of it might sink the ship.

So we come back to the vital question: Can we keep our jobs steady and secure, and also have pensions for our old age?

We in our Company are studying this question with the utmost care. It is a matter of deep concern to us all. If you would like to give us your own views, we would be glad to have you do so; tell your foreman, or any member of our management, or write a letter to me. We'd be glad to hear from you.

Sincerely yours,

President

management. Above is a sample.

WRITTEN COMMUNICATIONS

The kind of written materials to be prepared for the rank and file of your company will depend on whether your company has an established channel of written communications to employees.

A very effective medium, in any case, is the letter from the company president mailed directly to employees' homes. A document mailed to the home carries greater impact than handbills or other documents handed out en masse.

In line with maintaining management prestige and morale, letters mailed to employees should be discussed with, or at least distributed to, management and supervision before they reach employees.

The complexity of the subject warns that messages must be in simple terms and in small doses. Also, if your budget and talent make it possible, you will want to consider using easy-to-understand cartoons to illustrate the written text.

But—pictures or no pictures—make your messages as short as possible, factual yet friendly, and couched in terms everybody can understand. Remember that management language has been developed to suit management needs. It is seldom suitable for communications to other groups.

Don't depend on one or two messages to impress a point upon your audience. Your message will be remembered—and believed—only if it is heard over and over in as many different forms as can be devised.

But don't forget you're not selling products. You're telling people who live in the same "house" about things that affect "the family." They know a lot already. You have to keep their confidence and trust. Don't slap too much varnish on your mistakes. They're human, too, and they'll forgive mistakes quicker than varnish.

WHAT TO TELL

The pension issue should not be your first shot out of the gun. To begin your information program with a big to-do over the pension issue would reduce the campaign's effectiveness for two reasons:

1. Employees would become suspicious of your motives.
2. Employees would lack the necessary background information about your company and its problems to understand how pensions affect them and you.

Only when employees begin to see the light on the basic economics of your operations can they understand how important it is to them, as employees, for their company to make a wise decision concerning pensions, and to stick to it.

The usefulness of any message depends, of course, on how closely it sticks to facts, and on the sincerity and genuine interest in people shown by the company and by those who lead the meetings or write the letters or bulletins.

It is impossible to suggest what types of messages will fit the many varying conditions in different companies. However, the following series of messages, prepared as a starter for a group of mid-west companies facing certain pension problems in common, may be suggestive.

It should be carefully noted, of course, that this series of messages was designed to accomplish a *specific* purpose. In this instance tremendous pressure had been brought to bear by one union seeking to establish a new and revolutionary type of area pension plan covering more than 100 companies.

Under other circumstances the emphasis might be laid on the progress made in analyzing pension possibilities as they applied to the individual company as well as on the obstacles faced.

Message No. 1: "Our Markets, Sales, and Jobs Are Down"

a. What has happened:
—discuss (factually) drop in market—drop in sales—drop in number of jobs—over specified period.

b. What we must do to regain markets and sales, and thereby increase jobs (explain relationships):
—discuss need to reduce production costs so product can compete from price standpoint (illustrate).
—give several instances when sales were lost due to competitors' lower prices and show what this means in terms of jobs.

Alternate Message No. 1: "Our Markets and Sales Are Good"

a. What has happened:
—discuss (factually) favorable position of company concerning markets and sales, and how this is reflected by more jobs than otherwise would exist.

b. What we must do to keep markets good:
—maintain our favorable competitive position by keeping our costs low so we can continue to compete.
—illustrate by giving examples of winning sales because of ability to sell for lower price than competitors.
—list some of the things the company has done to keep costs low, such as buying modern machinery, etc.

Message No. 2: "Pensions Will Add to Our Costs"

a. Figure roughly what pensions would cost your company, on a basis which you can explain. Preferably consult an actuary, and use the facts he has given you for your company.

b. Illustrate graphically the size of these costs, such as:
—their relationship to all the cash now in your treasury.

PENSIONS, IN EVERYDAY LANGUAGE

One of the most important topics of conversation today—at home, on the street, and in factory and office—is *PENSIONS*. To help all of us to understand this complicated subject, we're listing here some frequently used terms.

First, who are the people involved?

(1) There's *YOU* — you want security, some reasonable chance of having provision made for your old age.

(2) There's *YOUR COMPANY*—every person in our management wants you to be satisfied, wants to see you secure in your job tomorrow as well as today, wants to help you provide for income for the future as well as now. We all want the best plans, both for the present and the future, that you and the company can afford.

(3) There's the *ACTUARY*—he's the man who studies births and deaths, figures out how long the average person at any given age can expect to live. He is trained in mathematics, statistics, and legal-accounting methods, and has a knowledge of insurance, annuities, and pensions. He's the man who computes the budget—that is: he calculates the cost today of providing benefits tomorrow. He figures out the mathematical chance each one of us has of living to retirement and longer, or of becoming ill or laid up by an accident before we reach retirement.

Glossary of pension terms: Many employees, and managers as well, are unfamiliar with pension terms. A first step in communications, therefore, may need to be a glossary in everyday language. One page from such a glossary is illustrated above.

—how adding a proper share of these costs to the sales examples you used in Message No. 1 would have made it impossible to beat your competitor (or, where you lost the sale—would have made your position even worse).

c. Show how this might affect the number of jobs.

d. Perhaps you can bring the costs home by pointing out that an employee who is 65 today and who wants $70 a month for life in addition to Social Security would have to pay an insurance company $11,000 in cash. ($70 a month plus Social Security for a man now 65 would total approximately $100 a month). A man who is 60 today would have to save $2200 a year for five years to buy himself such an annuity at 65. Point out that your company has so many (be specific) employees 60 or over, and just for that small group, you would have to provide so many (thousands) (millions) of dollars to purchase these pensions.

Message No. 3: "Your Company Wants You to Be Secure"

a. Discuss why it is "good business" for a company to do what it can to help employees be secure—today and in the future:

—the company can attract the best workers.

—turnover and absenteeism is reduced—lower turnover reduces costs, etc.

—morale is improved—better cooperation—productivity is higher.

b. Point out how a pension is really secure only if based on long-lasting *secure jobs* so that an adequate fund can be built up. Otherwise the pension plan is misleading—there is no real security.

Message No. 4: "Pensions Are Forced Savings"

a. Employees surrender current income in order to have pensions later on.

b. Where there is not complete past service funding, young people pay for a part of the retirement fund of the older employees, though few realize it.

c. If employees enter into this kind of arrangement voluntarily—O.K.—but they should at least know what the score is before they make up their minds.

Message No. 5: "How Big Should a Pension Be?"

a. Point out that up until now, funds paid into pension plans for each employee varied according to the income of the employee, so that at retirement age the pension payments were larger or smaller depending on the size of the fund built up for each person.

b. The "new idea" in pensions seems to be to pay everybody the same amount—no matter how much or how little he earned while working.

c. Express belief that people whose extra effort or extra skill brought them larger wages ought to have the right to save more, by paying more into a pension fund—and hence receive larger payments at retirement age.

Letters to employees should always stress *their* interests rather than those of the company management. That is the note which fundamentally should characterize the entire communication program.

INFORMING THE COMMUNITY

Employees are citizens and neighbors, as well as workers. They are influenced by what their families, friends, and

neighbors think and say. On a subject as important as pensions, much is likely to be said, particularly if union demands or other circumstances bring issues to public attention or may at some time do so.

A company should consider, therefore, whether its program of continuing information should go beyond supervisors and employees to the neighborhood. The smaller the community in which the plant is located, the stronger may be the reasons for taking the community into confidence, particularly if the company is a leading factor in the productive economic life of the neighborhood.

Community understanding for a company and its policies, including pension policies or other provisions for employees grown old in service; and community respect and regard for a company management, including their treatment of old-age workers, can be developed in many ways.

Personal acquaintance throughout the community; participation by company executives in community affairs; a reasonable flow of authoritative public information about the company's business; management encouragement for visitors from the community to the plant, with occasional planned "open-house" days for community neighbors; paid advertising in the local press about the company and its policies, problems, and progress; a willingness on the part of the company executives to speak at local meetings whether of men or of women; company radio programs, cultivation of understanding in the schools and churches; these are ways toward deserving and winning public understanding and support.

Used for discussion of pension problems alone, methods such as these will probably fall flat on their face. Yet the issues involved in pensions are in many cases of a magnitude sufficient to justify a company in considering basically what kinds of continuous community contact and education it ought

to have. The fact that the company has been silent in the past does not mean that it cannot start a constructive communication policy now. It may need to proceed more carefully than if it already has built warm community regard and esteem—but it can, and in most cases should, at least make a start.

COMMUNICATION DURING NEGOTIATIONS

When negotiations under collective bargaining begin, what of the communications program then?

To this question, there can be no universal answer. Each company must judge for itself the circumstances of the moment. If a good communication program is already under way, there is strong presumption for reporting immediately each step taken (1) in the prenegotiation period, (2) while negotiations are on, and (3) at once when a settlement is reached. What takes place each day may well be reported immediately through the press, over the radio, through letters sent out that night, through newspaper advertisements—through every medium already in use in the regular program.

One caution, of course, must be observed. Neither during negotiations nor at any other time may a company say or do anything which could properly be construed as bringing coercion to bear on any employee. Such a course would be illegal. Under the law, employees must be free to think, act, or vote as they believe best. Equally, the employer is free to give education, information, facts. No union has a monopoly on communication, save as the employer fails (as too frequently he does) to use the right conferred on him by law to inform and educate his employees as well as the public.

In advance of negotiations, companies are well advised to prepare loose-leaf books of "Notes for Negotiators" covering each foreseeable contingency. In such books, statistics, in-

formation, history, arguments, and possible concessions are arranged under every subject heading. This preparation leads to better focused negotiations. Moreover, with policy defined in advance, bulletins and public releases based thereon can be issued within minutes after any negotiating session is over.

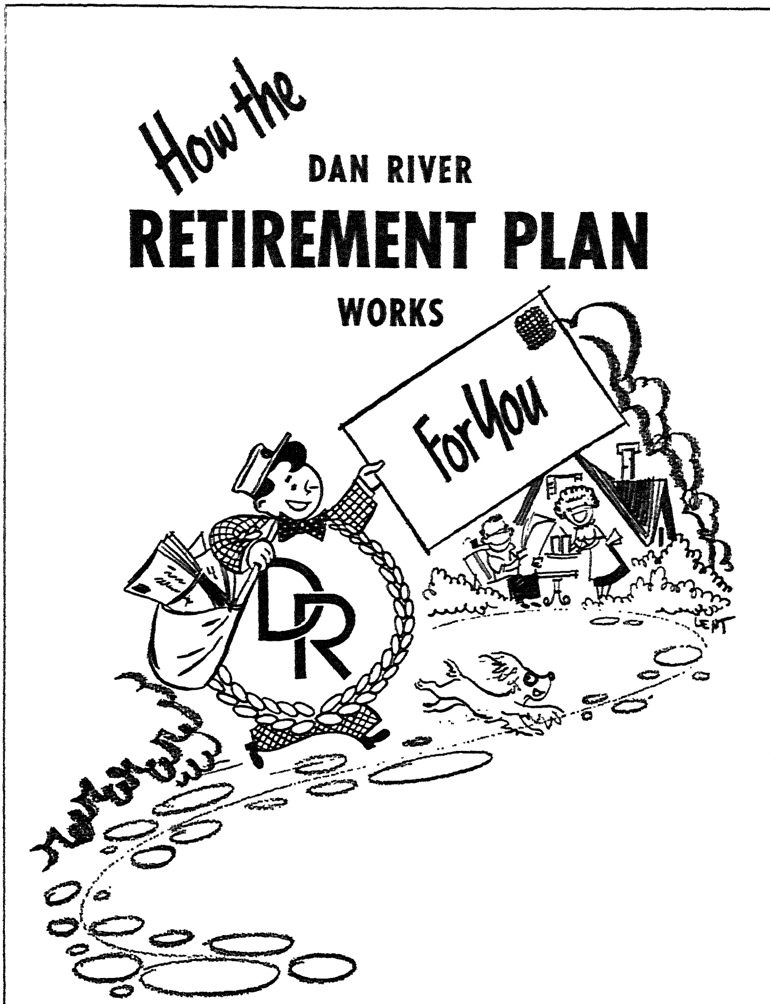
Even in the rush of such occasions the company should make every effort to see that its middle management and lower supervision are informed, if possible in advance of, but certainly as promptly as, anyone else. Don't hesitate to burn midnight oil when necessary for purposes of this kind.

Companies which previously have never had regular communication programs nevertheless, in times of special issues brought up by union demands, have gone to supervisors, employees, and the public with series of messages. Experience has shown that in some cases, emergency communications of this sort can be done with great success. But regular communication is best—and the channels used therein, usually will be best in times of special stress or emergency.

MERCHANDISING THE PENSION PLAN

When a pension plan has been adopted, the communication program has just begun. The plan necessarily is a lengthy, complicated legal document. Figuring each individual's pension may itself be no completely simple task. Actuaries and lawyers are necessarily trained to express exact meanings and to protect their clients against all contingencies. More than a legally correct explanation of a pension plan, however, is required to gain the understanding of the average man.

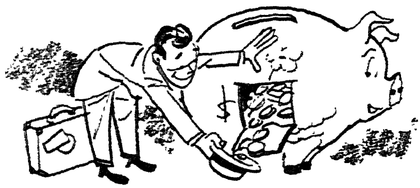
Don't for one moment assume that explaining a pension plan can be done in one easy lesson. Take it one step at a time. Many media are available: pictures, cartoons, sound slide films, moving pictures, blackboard discussions, booklets.



Cover of Dan River Mills 30-page booklet explaining its retirement plan for employees. There were also a sound slide film in color, blackboard talks, and individual conferences.

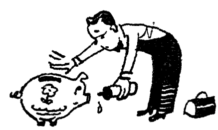
By the way, suppose I leave Dan River?

REMEMBER I said before—the money you put into the Plan is held by Equitable? Well, if you leave the company before you reach retirement age, you get back *all* the money you put in—*and* 2% interest, besides! Of course you won't have the benefit of the money the company has put in for you—or a regular monthly retirement income when you reach retirement age—except in certain cases which I'll explain later.



Then suppose I come back to the Company again?

ONCE you've taken your money out of the Plan, you have to start all over again—just like a new employee—to build up your retirement income.



A sample page of the booklet is given above. Text is in large type, replete with color, cartoons, and tables easy to read. The booklet is 9 x 12 inches.

Use them with small groups, preferably; and ultimately plan for an individual conference with each person concerned.

When you are spending thousands, hundreds of thousands, or millions of dollars on the plan itself, a relatively small additional appropriation, even if it runs into some thousands of dollars, is a necessary "premium" to pay, if you expect your people to derive from the plan the satisfaction which you will wish them to have.

Don't leave all explanation to the union—it is management's function and responsibility to exercise the arts of graphic illustration and salesmanship to portray the plan in every detail and to "sell" it completely to stockholders, managers, supervisors, and rank and file.

Remember, too, that every plan when it goes into effect affects some persons in ways which they may consider unjust, and less favorable to them than if there had been no plan at all. For example, one company not long ago initiated a pension plan calling for an initial commitment of $4,000,000 and an annual premium of $400,000. The plan was a contributory one and over 99 per cent of the eligible employees had signed up.

However, neither the insurance company nor the management had realized the nature of the first major impression that the pension plan would create. On the first retirement date, scores of employees who previously had expected to go on working perhaps for years to come were to be compelled to quit, some of them with practically no pension payment at all. The employees themselves, even though they had signed the plan, didn't understand it, and never would have accepted the discharge of these oldsters gracefully. It was a situation which spelled potential disaster for employee relations, and incidentally for community and union relationships, too.

When the company saw the problem a number of steps were taken immediately. Each case of an individual compelled soon to retire was analyzed separately and personal conferences were held. A 20-minute sound-slide film was created in color to explain and merchandise the plan fully to all who had signed up or were eligible. Simultaneously, a large booklet full of cartoons, color, and easy-to-read tables was prepared to explain the plan graphically to employees and their families. The film and the booklet supplemented each other. They were presented first to all supervisors, who were drilled in the mathematics of the plan and in figuring out how it would apply in any individual case.

After this preparation, the industrial relations department showed the film to small groups of employees, always with the supervisors of these groups present. The booklet was presented at the same session, and blackboard examples (the chalk talk method) of how the plan applied in individual cases were worked out before each group. Questions and answers followed. At the end of the session each employee still having any question about the plan was urged to take it up with his supervisor.

The expenditure required was small in proportion to the $4,000,000 initial and $400,000 annual outlay of the company for the pension plan. But it won for the company support and approbation, not only from the employees, but local union leadership, and headed off what otherwise might have been an explosion.

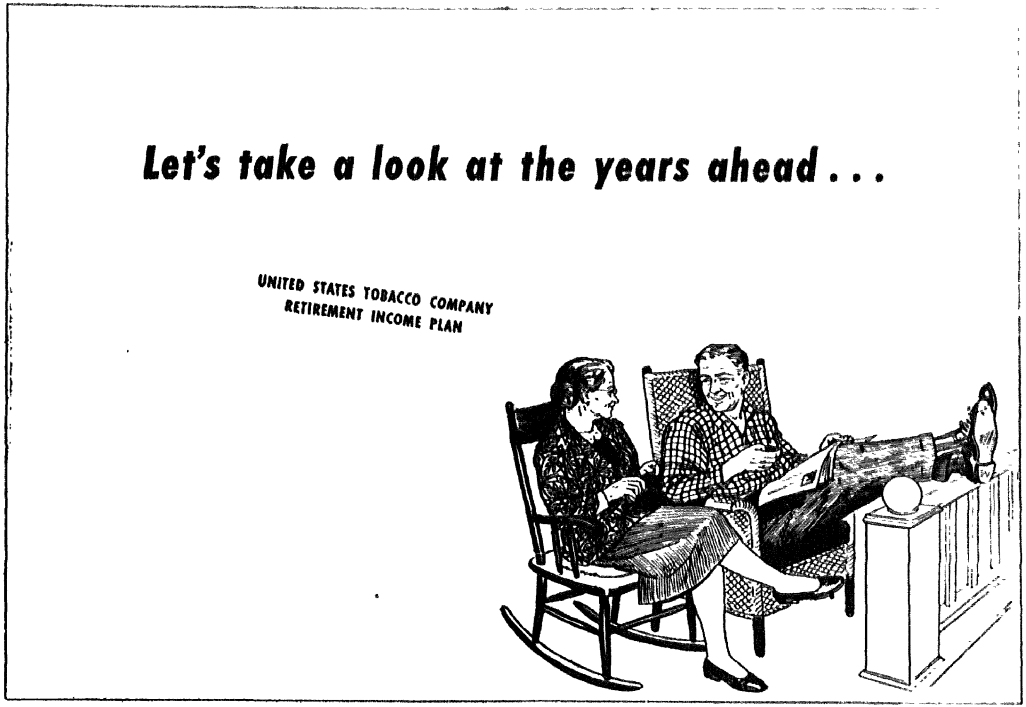
KEEPING THE PROGRAM SOLD

The merchandising and selling just described is not the end of the job. It must be done over and over. A pension plan goes on for decades. People forget what they've been told, and incidentally lose their booklets, too. New employees be-

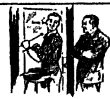
come eligible and must be sold. Others reach retiring age, which to many is a shock for which preparation should be made through personal conference and adjustment. Personnel constantly changes, including union officials. Young people may not be too much interested, and must be shown that the regular retirement of the old opens opportunities for younger people to go ahead; and for scores of reasons a pension plan once entered upon must be constantly re-stated, publicized, sold, and kept green in memory.

A company pension plan properly merchandised is a powerful incentive toward making capitalists and enterprisers of the masses of workers. Pension merchandising should be made to lead to a better appreciation by each worker for the necessity of profit in the individual company, and for support for those things—such as research, high productivity, a good competitive position for the company—which help to make profit and stability possible. Inevitably it leads, or should be made to lead, to a recognition that 3 per cent interest on money is a lot better than 2 per cent, and that 4 per cent would be better than 3 per cent. It can help make employees partners in the long-term success of the company enterprise to a degree that sometimes in recent years has been difficult to attain.

Finally, if there ever was an explosive, emotional issue, making provision for old age through collective bargaining is it. Equally, however, if there ever was an issue where skillful handling of delicate human problems can pay off in mutual satisfactions, closer relationships, and better cooperation, probably a company pension plan, soundly conceived, wisely administered, and constantly sold, is it. How individual management meets this challenge will be a test of industrial statesmanship. Communication will be a most important part of that test.



The United States Tobacco Company used this booklet to assist in a well-rounded program of pension education.



WHEN YOU RETIRE . . . MAYBE YOU'LL WANT TO START A BUSINESS OF YOUR OWN

SUN	MON	TUES	WED	THURS	FRI	SAT
						6
7						13
14						20
21						27
28						

HOW TO TELL WHETHER YOU CAN JOIN THE PLAN—On January 1, 1948, the new Retirement Income Plan will start. You can join the Plan at that time if . . .

you are an employee full-time

and

you are at least 30 years old

and

you have been with the Company 5 years or more

Supposing, though, that you haven't been with the Company 5 years—or you're not yet 30 . . . what then? All you need to do is keep on as a full-time employee long enough to meet these conditions. Then you can join the Plan.

Each page of the United States Tobacco Company booklet is in the form of a calendar page. Sketches are different on each, suggesting the variety of things the retired man may want to do to occupy his time.

CHAPTER 18

PREPARING EMPLOYEES FOR RETIREMENT

Are you taking any steps to prepare your employees for retirement? When a prominent industrialist was asked that question recently, he replied, "Hell, I'm giving 'em a pension that's bigger than any of these $100-a-month deals everybody's hollering about. Isn't that enough?"

No! reply doctors, psychiatrists, retirement personnel experts, *and retired employees themselves.*

Few employees, even when nearing retirement, recognize that being pensioned will bring two serious problems:

1. Too much leisure.
2. Too little money.

They realize these things soon enough after they retire. If the pension is anywhere near reasonable in amount, neither of these problems is insurmountable—*if an employee prepares for it ahead of time.* The trouble is that too few employers are even calling these problems to the employee's attention, much less helping him prepare for them. On the contrary, many employers are merely aggravating these problems by painting glowing, but unrealistic, pictures of the advantages of retiring on a pension.

"Every day a vacation! Getting ahead in the world is important when you're young, but . . . when you're 65 you're glad to forget about it and take life easy."

The publications editor who prepared that pension plan booklet overlooked the fact that just the *prospect* of nothing to do but "take it easy" for 15 years is enough to kill a lot of people in very short order.

"And when I'm 65 we can retire to Florida or California. Maybe we'll take the first couple of years and and really see the world."

That may be a good approach for the executive who'll have a pension of $5,000 a year; but is it fair to the guy who's going to retire on $100 a month? (The quotation appeared in a colorful pamphlet distributed to rank-and-file employees.)

WHAT CAN YOU DO?

You have to start by recognizing that retirement is both a psychological and financial shock to every employee. If the employee has been allowed to forget that retirement is approaching, the shock may be sufficient to create real resentment against the company, even though you start paying him a pension.

The first thing to do, then, is keep the employee constantly reminded that there is a pension plan and that the employee will be required to retire when he reaches 65. *Don't call attention to any provision for delayed retirement unless the company is prepared to give almost automatic approval to any request for delay.*

The second thing to do is keep the employee constantly reminded that the increased leisure of retirement will require him to develop new interests, new activities, and generally a new pattern of living. If possible, don't remind him, *help* him to make this adjustment—and do it *before* he retires.

The third thing to do is point out to the employee that retirement will require a readjustment in living standards. If

you do this in the wrong way, it can backfire and leave the employee with a poor impression of you, your company, and your pension plan. If you approach it as a matter of being genuinely helpful (rather than coldly stating an unpleasant fact), you can gain real goodwill from the about-to-be-retired employee. (And from other employees and the community, because you can be sure he'll talk.)

REMINDING EMPLOYEES

If you're doing a bang-up job of continuing communication with your employees about pensions (and you certainly should be), it is possible that you're already doing enough to remind employees about impending retirement. But the chances are you're emphasizing the advantages to the employees of the pension program and soft-pedaling the fact that for some employees this will mean a marked reduction of income in the very near future. Unless you want to take a chance of undermining your whole pension program, that's about the only approach you can make in communications that are directed at *all* employees.

The job you have to do for employees that are approaching retirement is a job that must be done on a man-to-man basis. In communicating with the individual employee, you can lay emphasis on different aspects of the program than you do in general broadside communications. You can, of course, give indirect emphasis to this aspect of the problem by playing up retirement parties and news of retired employees in your house organ, and by giving attention to the fact that promotions resulting from retirements have indeed resulted from retirements. But you're limited in what you can do in this way. More is needed.

One company that makes a practice of having its president send congratulatory letters to employees who are celebrating

a 25th service anniversary, and any service anniversary after the 25th, has added a new "feature" to those letters. When one is sent to an employee 60 years old or older, the letter now includes this phrase: "With 27 years of service already under your belt, do you realize that by the time you retire at 65 you will have had 31 years of service with this company? That is really a record to be proud of!" (The figures, of course, are varied in each letter to correspond with the facts.) The emphasis is all *positive,* yet the employee is reminded in a very direct fashion that he will retire in a relatively short time.

Another company that makes a practice of sending each employee a birthday card every year developed a series of special cards for over-60 employees. Each one of these cards is inscribed on the front "61 down and 4 to go." (Or 62 and 3, or whatever the case may be.)

Still a third company sends each of its employees an "annual report" on the pension fund. This company's plan calls for full vesting at age 55. The company makes use of that fact to remind over-55 employees of approaching retirement by including a card with the annual report that reads as follows:

John Jones
Normal retirement date: March 1, 1956

Your normal retirement date has been entered in the upper left-hand corner of this card. It indicates that you are now within 10 years of retirement. That means you now have a fully vested interest in your retirement fund. For that reason, I believe you'll be especially interested in this annual report on the operation of your fund. When you retire, your pension will be paid from this fund, so if you have any questions or there is anything

you don't understand, why not drop me a note, or stop in and see Bill Smith, the Personnel Manager? You know, he's also a member of the Pension Committee, so he knows all about this pension and retirement business, right from A to Z.

Sincerely,

President

These are effective ways of reminding an employee that he is approaching retirement. But they are no more than reminders. A really effective job provides reminders that are tied right in with constructive help in meeting some of the problems associated with retirement.

PREPARING FOR LEISURE

The first thing you can do to help an employee adjust to the increased leisure of retirement is to bring home to him the fact that unless he starts planning early, he won't have enough to do after he retires. You may not be in a position, as yet, to help an employee solve the problem of what to do when he has nothing to do, but you can give him a long start on working out his own solution by letting him know that the problem exists. Too many people never think about retirement until it happens. Or if they do, they think about it in the wrong way.

An article appearing in the May-June, 1948, issue of the Pitney-Bowes "Bulletin" is a good example of what every employer with a pension plan can do *now* to start employees thinking constructively about what they are going to do after retirement. This brief article, titled "Life Begins at 65," is reproduced substantially in full on pages 292 and 293. One paragraph has been deleted because it refers to the specific provisions of the Pitney-Bowes retirement income plan. The

second sentence of the fifth paragraph has been altered slightly to omit a reference to the Pitney-Bowes plan. Feeling that this article might help other employers put this vital problem before their employees, Pitney-Bowes extends permission to reprint, in whole or in part, as it's presented here, with or without credit to the Pitney-Bowes "Bulletin" of May-June, 1948.

Having called the problem to the employee's attention, what more can you do? Have you got a 20-year club or a 25-year club in your company? If you do, it's a natural as a place for employees to start swapping ideas about how to use their time after they retire. In a few companies, such clubs are really active organizations that hold meetings, sponsor company activities, and sometimes sponsor community activities. There is really no reason why every 25-year club cannot be put on that basis. If just one of your executives who is a real self-starter is a member of the club, he can do the job.

One company faced the problem of a number of retired employees who were constantly hanging around at lunch hour, and occasionally going right into the production departments. They were obviously "lost" men, who did not know what to do with their time now that they had retired. The presence of these men was disrupting production, yet it caused resentment among the employees when the company tried to tell them they should stay away. Finally one of the company's executives hit on the idea of turning the problem over to the 25-year club for solution. The annual dinner meeting of the club was going to be coming up in about three weeks anyway, so the members invited the three "hangers-on" and any other retired employees still living in the area to be their guests at the dinner. The president of the company, who was also a member of the club, took it upon himself (as a president can) to announce that all retired employees were immediately rein-

LIFE BEGINS AT 65

Joseph Smith smiled as he worked at his bench in the machine shop of a small manufacturing industry. Next week at this time he would be home, with nothing to do but loaf, scratch around his garden, and sleep. He was retiring at the end of the week. He'd have a pretty good pension—not as much as he'd been earning of course, but, with Social Security, enough to live comfortably. His house was paid for, his children grown, and his wants simple.

Six months later, Joe Smith's wife wore a worried look. Joe was irritable, and paced endlessly around the house watching her do the housework, frowning and muttering. His children and grandchildren couldn't understand what was wrong, and began to make excuses why they couldn't drop by on Sunday.

The next summer Joe died. The doctor wrote the Latin name for an ordinary disease on the death certificate. He should have written "BOREDOM."

For that's what made Joe's retirement a failure, and his days of leisure full of frustration. The truth of the matter is Joe had never considered what it would be like when he quit work. He knew he would have to quit at 65, and had supposed it would be a pleasure, but it hadn't worked out that way, because Joe had no other interest except his job.

stated to permanent active membership in the 25-year club. It took him 15 minutes to make the announcement, but what he said in effect was this:

> "You boys who have retired know most if not all the members of this club who are still working. You see each other once in a while. Some of you see each other frequently. But I think that on the whole, you would enjoy being able to get together with this group four times a year when we meet. We think you'll enjoy it as a chance to find out a little about what is going on at the company, and also as a chance to make and renew acquaintances. Frankly, we expect to get something out of it too. Every member of this club is within 12 years of retirement, and some of us are a lot closer. Some of us know what we are going to do when we retire. Bob, here, was born and brought up on a farm. He bought a farm about three years ago and has been cleaning it up in his spare time. When he retires two years from now, he's going to start working it as a full-time proposition and try to make a go of it. But me? By the time I retire I will have probably already taught my two grandsons all I know about sailing, and then if the Chamber of Commerce stops asking me to make speeches I just don't know what I'll do. Unless one of you can come up with a bright idea, I'll probably try to manage it to get named Chairman of the Board of Directors and spend the last years of my life making life miserable for you."

That particular company president died before he had had an opportunity to retire, but before he died he saw the retired members at the 25-year club organized into a retirement planning committee. Now, every employee in the company who reaches the age of 55 receives a personal call from one of the

members of the retirement planning committee. The employee is asked, in effect, "Jim, have you decided just how you're going to use your time after you retire? I had to face that problem, and I know that 55 is none to soon to start planning." Members of the committee have been able to interest dozens of preretirement employees in becoming active in various civic and philanthropic groups. They have helped others to become interested in local politics or in work with their church. A hobby shop and a hunting club for retired employees have been organized.

What about the three hangers-on? One of them had been a boating enthusiast who had to give up his hobby because it was too expensive after he retired. He had to swallow his pride for a minute to do it, but he finally got a part-time job as assistant sailing instructor at the local boat club. He gave the sailing lessons to the president's grandchildren after the boss died. But you can't build Rome in a day. The other two just kept hanging around.

This particular company was extremely lucky in having an active 25-year club, a group of really loyal "alumni," and a president with both vision and courage. It was a medium-sized company in a small town. All of the circumstances were just right for the solution attempted in that particular case. There's a good chance that you wouldn't be able to do the same thing because all the necessary elements wouldn't be present for a winning combination. You can do the same kind of thing in any company through an organized program of employee counseling. A few of the bigger companies are right now organizing definite retirement planning programs that will include continued counseling over a period of 10 or 15 years for employees approaching retirement.

One of the big oil companies has gone so far as to retain a consulting psychologist who specializes in the problems of

retirement to help organize its program. The psychologist's name is Dr. George Lawton. Writing in the January, 1950, issue of *Factory Management and Maintenance,* Dr. Lawton expressed this objective for any program of employee counseling for retirement:

> When we get older, we should step up, not down. Retirement should never become the lazy man's dream of doing nothing. It should be the most active part of a man's life, the culmination of his career. It should mean the reaching of the goals that could not be reached in earlier years.
>
> That's one way to live longer and like it. Even if we don't succeed in adding years to our lives, we will have added life to our years—and that's far more important.

MAKING FINANCIAL ADJUSTMENTS

How can you remind an employee that when he retires he will have to start living on about half of his present pay, without leaving him in a frame of mind where he resents the prospect of retirement? It's not an easy job when you're talking to a $5,000-a-year-worker who is going to be cut to $2,500 when he goes on pension. It's a lot tougher to tell a guy who has been earning $50 a week that he is going to be retired on $100 a month.

It's because the job is so difficult that you have a real obligation to do it *early*. It doesn't help a bit to call an employee in just before he is to retire and say, "Joe, you know you're going to be retired in six weeks. Now, $100 a month is not much to live on. I hope you've been giving some thought to saving enough so that you and the Missus will be able to get by." If Joe has been putting money aside, the question is unnecessary. If he hasn't, six weeks, or even six months would

be too short a time for him to put aside enough out of $200 a month to do any good.

"Well," you say, "if I ask that question 6 years or 16 years before retirement, it would be taken as an open admission that our pension is not big enough to retire on. That would be just giving the unions more ammunition and they would be shouting louder than ever for bigger pensions." Sure they would. Which simply means you've got to put your communication system to work to point out that a pension is not intended to provide *all* the income a retired employee needs. This means you will have to knock down the false idea many of the unions are now selling that pensions represent 100 per cent old-age security. For some companies, this will present the embarrassing necessity of unselling the idea that they sold through their pension booklets that pensions represent 100 per cent old-age security. Companies that used big type to explain that a pension plan would mean "carefree years of sleeping late . . . having the best garden in town . . . seeing the country . . . and doing most anything you want to" and then obscured in a complicated table the fact that a man who earns $50 a week for 40 years will get about $75 a month as pension may have to eat some crow. If it's going to have to be done at all, it's probably better to do it now than later.

The sooner you can call to an employee's attention the fact that he is going to have to supplement his pension with some personal savings if he is not to undergo a major reduction in his standard of living after retirement, the better off both you and the employee will be. Obviously, you don't want to do this job by standing up and shouting from the housetops.

Just giving the employee a booklet with some tables and a formula for computing his prospective retirement income isn't enough. You'll probably work out some place in the

booklet an example to show how it's done. You might, as Philip Morris did, work an example based on an employee whose earnings are approximately $50 a week for 40 years. This employee's total pension, including primary Social Security benefit, worked out to $1,352 a year. That's a pretty realistic sort of a picture to present in a booklet describing a pension plan which covers *all* of the company's employees.

Contrast that with the more typical example presented by this company: The employee is assumed to start working for the company at age 25 at $65 a week. For purposes of the example, it is assumed further that by the time this employee has had 15 years of service he will be earning $100 a week. By the time he retires at age 65, he is assumed to be earning $125 a week. His total monthly pension, including primary Social Security, is computed as something slightly more than $210 a month, or a little over $2,500 a year. While this company may pay above average wages, the Bureau of Labor Statistics reports that for July, 1949, the average weekly earnings of hourly-rated workers in this industry were very close to $60. In view of that, it's hard to see how the one example worked out in this company's pension booklet can be considered a fair presentation to rank-and-file employees.

Another company was about to put out a new edition of its pension pamphlet. The employee relations manager got hold of some surplus copies of the old edition and distributed them to 50 hourly-rated employees with a request that they read it through and then answer some questions that might help him in making up a new one. Without any thought of what would be disclosed, one of the questions he asked was: "Approximately how much do you think your pension will be when you retire if you continue working at the same rate of pay you are now getting?" More than 30 of the 50 employees came up with answers that were between $140 and $160.

With a little pencil work, the employee relations manager figured out that none of the employees in the group would be entitled to pensions of more than $105 a month. With a little investigation, he found that the "example" worked out in the booklet showed that an employee with 32 years of service, in a particular wage bracket, would be entitled to a pension of $153 a month. What apparently happened was that the employees who read the booklet assumed that any employee with 32 years of service would get $153 a month, and in answering the question they merely made minor adjustments in this figure to compensate for the fact that their service would be greater or less than 32 years.

So apparently you can't get across to employees how big or little their pension will be by simply giving them a booklet which contains detailed pension tables and typical "examples." *How can you do it?*

One company makes a practice of sending its employees each year an "audit" of their prospective pension benefits. On the assumption that the employee's earnings will continue to retirement unchanged, the audit contains a perfectly flat statement that, "Your monthly pension retirement will be $ . . . ." The audit goes on to give other information concerning the retirement program such as the prospective amount of the employee's Social Security, the face value of his group life insurance policy, and so forth.

While not attempting to forecast as a single figure the amount of an employee's retirement income, Eastman Kodak Company sends each employee each year a "personal statement chart." Prepared on tabulating machinery, this chart shows the total annual retirement income credited to each employee up to the present time. It also shows how much of this retirement income was credited as a result of service and earnings during the present year. Kodak's "personal

How You Personally Are Sharing in Kodak Plans during 1949

(KODAK PAYS ALL COSTS EXCEPT FOR YOUR CONTRIBUTION TOWARD THE LIFE INSURANCE)

1	2	3	4	5	6	7	8
$	$	$	$	$	Weeks Days	%	
Payable to your named beneficiary in case of death while with Kodak. Be sure the designation of beneficiary on your certificate is up to date	Deducted from your paycheck monthly	Payable to you each year on retirement after specified length of service	This is included in Figure 3	Before deduction of U S income and F O A B. taxes		Multiply your normal weekly rate by this percentage	In any one year or any one period of verified illness

1 Your Group Life Insurance Coverage for 1949.

2 Your Monthly Contribution for this insurance.

3 Your total Annuity accrued up to January 1, 1949.

4 Your Annuity accrued during 1948. (on the back page, you'll see how to use this for estimating your annuity at retirement)

5 The amount of your Wage Dividend received March 14, 1949.

6 The length of vacation you are eligible for in 1949.

7 The percentage of your normal pay, payable for Sickness Allowance, as of January 1, 1949.

8 The number of weeks you were eligible for Sickness Allowance, as of January 1, 1949.

The above figures are transcribed from Company records. Since there is always possibility of an occasional error in handling thousands of figures, you should speak to your supervisor if any of these do not appear to be correct or if you wish additional information.

The Retirement Annuity Plan provides for monthly payments to Kodak men with twenty or more years of service and Kodak women with fifteen or more years of service who have reached normal retirement age (65 for men and 60 for women) and have retired from Kodak service. The amounts of these payments are based on total earnings with Kodak, and payment is subject to the terms of a contract with Metropolitan Life Insurance Company. Retirement Annuity payments continue for life and are paid by the insurance company. The cost of these annuities is paid by Kodak, and the Annuities are in addition to government Social Security benefits.

Figure 3 shows the actual amount of Retirement Annuities to which you will be entitled, subject to the provisions of the Plan, on the basis of your earnings up to January 1, 1949. This is an annual amount, one-twelfth of which would be paid monthly after retirement as long as you live.

Figure 4 shows that part of the above Annuities which is based on your earnings for 1948. Assuming that your earnings were to continue at the 1948 rate and the Plan is not changed, the amount of your annuity would increase each year by Figure 4 up to the year of your normal retirement date. By multiplying Figure 4 by the number of years between now and age 65 (60 in the case of women) and adding the result to Figure 3, you can estimate the approximate rate of Annuity which you may expect to receive when you reach normal retirement age. One-twelfth of this estimated amount would be paid monthly after retirement as long as you live.

Under the present Plan, men with 20 years and women with 15 years of continuous service have an absolute and vested right in the Annuities even though they leave Kodak before reaching normal retirement age. Their Annuities are based on their earnings up to the time of leaving and are payable when they reach normal retirement age. People who leave before fulfilling the 15 or 20 years' service requirements are not, of course, eligible for Annuities.

statement chart" for 1949 is reproduced on page 300. On the reverse side of the chart (see page 301) is information on Items 3 and 4 (the items relating to retirement income).

Almost an infinite number of variations are possible on these methods of reporting to employees their prospective retirement income. An effective job of this kind is certainly a long stride in the right direction. In many cases, it is probably adequate and no more need be done. But sometimes you cannot just put the facts in front of a person and have him draw the obvious conclusion. For that reason, where any sort of retirement counseling program is established, you would be missing a real bet if you did not include as a definite part of this program an examination of the employee's financial preparations for retirement.

In his article in *Factory,* Dr. Lawton makes a point that is well worth while for any retirement counselor to remember:

> Sooner or later, if you have not already done so, you must face realistically just what your financial position will be when you leave your job. You can do two things, assuming that, like most people, you will find your income much reduced:
>
> 1. You can plan ways of supplementing your income after retirement. . . .
>
> 2. You can gradually cut your scale of living and thereby reduce your budget *now.* You will thereby avoid the need of sudden, drastic readjustments in your way of living when you retire. You will also save money.
>
> *Pete Downing's case is a good example . . .*
>
> . . . The Downings had a son and a daughter. By the time the children were established in homes of their own, Pete was about 53. One evening, he told his wife: "Look

here, Mother, in about a dozen years I'll be ready to retire. I've seen a lot of people run into trouble when they suddenly had to change over to less money. How about just telling ourselves we have retired now and that we have to live within our new income from now on?"

Pete and his wife disposed of their big, old-fashioned house in exchange for a smaller one, and received some cash in addition. That amount they put away to start their nest egg. At first, the two felt handicapped, but not for long. They were soon hardly aware that any change had taken place, and when retirement time came along they were happy indeed that they had carried out their plan.

Dr. Lawton's article contains one more item that it seems appropriate to quote:

"And by the way: HOW MUCH PLANNING HAVE YOU DONE ABOUT YOUR OWN RETIREMENT?"

PART FOUR

THE IMPACT OF PENSIONS

Chapter 19

IMPACT ON BARGAINING

Bargaining over pensions promises plenty of headaches. Far more complex than wage negotiations, job evaluation, seniority clauses, grievances, and the like, pension bargaining is a job for experts. And the chances are good that even the experts are going to be temporarily stumped by some of the problems that crop up.

The first thing that the employer is going to have to face is the fact that his negotiations are no longer limited to bargaining with the union. The employer must also "negotiate" with insurance carriers, trust companies, state insurance officials, and the Bureau of Internal Revenue. In addition to technical and actuarial problems involved for each plan, a mass of state and federal laws and regulations must be considered at each step of the bargaining process.

This will likely call for some major changes in the bargaining process. Whether these new factors will alter bargaining *strategy* or not will have to be determined in each individual situation. No general rules can be laid down. The individual negotiator will remain the only man who can effectively plan strategy on a given issue at a given time. But it is a cinch that the negotiator will have to take at least the following factors into consideration in planning his negotiations.

NEWCOMERS IN BARGAINING

Some new faces will appear at the bargaining table—or at least will appear directly *behind* the table. Whether or not

these newcomers to bargaining actually participate in negotiations or remain in the background, their influence will make itself felt. (Because these men are, for the most part, completely inexperienced in collective bargaining, the negotiator—either union or management—will probably want to keep them just as far away from the bargaining table as he possibly can. Despite what may be an overwhelming desire to have these men actually sit at the bargaining table for reasons of their technical competence you will probably be better advised to keep them in a "back room" where they can be consulted as needed but where they can't put their feet in your mouth because of a lack of understanding of the strategic considerations in negotiating a contract.) Some of the new faces are:

The Pension Consultant. There will probably be two of them—one representing management and one representing the union. Some companies and some unions have gone so far as to add competent pension experts to their permanent executive staffs. (Competent or not, they will be partisan. You won't be able to rely on the other fellow's expert to do any of your detailed planning for you.)

The Treasurer or Comptroller. More than ever the advice and guidance that these men can give on long-range problems will be required. Managing large sums of money has been their lifework. They know how to plan such matters so as to eliminate the unnecessary costs of pension administration found in some plans.

The Tax Lawyer. A federal corporation tax exemption for a pension may be worth millions of dollars a year. So the tax lawyer—and the government tax collector—will be at every bargaining session.

The Corporation Counsel. Some types of pension plans may require clearance with the Securities and Exchange Com-

mission. If a trust fund is to be set up, a mass of state regulations must be considered. And legal advice will be needed by the bushelful to insure that you do not promise the union something that will get you in trouble when the company starts trying to execute agreements with insurance or trust companies to put it into effect.

Insurance and Trust Company Representatives. Unless you have made up your mind in advance that your pension plan will be self-administered in the largest sense of that word these men will be a definite part of the bargaining team. (A "pension expert" of one of the leading insurance companies said recently that employers were more and more often requesting insurance company representatives to take part in direct talks with the union. He expressed what he said was an "unofficial" view of his company that while they were willing to do this, they much preferred to deal with unions through the union's "pension expert." Even then, he said, it was much more satisfactory for everyone concerned if this could be done in informal sessions, to eliminate the possibility that either party concerned was "talking for the record.")

The Stockholder. In a more real sense than ever before, the stockholder will be an important part of the collective bargaining process. In some situations, it may be necessary to submit a pension plan to the stockholders for their approval before it goes into operation if the possibility of suits by minority interests is to be avoided.

NEGOTIATIONS WILL BE LONGER

With more people to consult on a complex issue, you will find that the bargaining process has become a more lengthy one than ever before. Lengthy not in terms of hours and days, but weeks and months.

There is hope that unions will recognize this need for time

and not try to force settlements by premature threats of strikes. The United Automobile Workers, in its instructions to negotiators titled "Basic Minimum Standards for Supplementary Security Programs," makes the point very clear:

"NOTE: The employer will need considerable time to develop a plan which meets UAW-CIO standards and to work out cost figures." (The complete text of these "Basic Minimum Standards" will be found in Appendix 5, pages 391 to 402.)

Unfortunately, some unions have adopted a far different position. For example, the National Bituminous Coal Wage Agreement of 1947 was hammered out in almost continuous sessions while John L. Lewis maneuvered the operators into the position of being under constant threat of having the mines taken over permanently by the government. Two items in the Mine Workers' welfare agreement provide dramatic evidence of the inadvisability of trying to write so complex a contract as a pension agreement under these conditions.

Paragraph 4 of Section *A* provides: "It is agreed by the contracting parties hereto that the trustees herein provided for [John L. Lewis and Ezra Van Horn were specifically named in Paragraph 2 of Section *A*] shall serve for the duration of this contract *and as long thereafter as the proper continuation and administration of said trust shall require.*" (Italics added.) It will be noted that no provision was made for the contingency of resignation or death of the trustees. Consequently, we saw in the summer of 1949 the almost ridiculous situation of a trustee (Van Horn) who wanted to resign, but was without any way in which to resign. Finally, his resignation was tacitly accepted by all parties concerned and a new trustee appointed. But there would seem to be a possibility at least of a legal challenge to every action taken by the trustees since the new member has been sitting with them—because there

was no provision made for the appointment of another trustee in the event of a vacancy.

Paragraph 5 of Section *A* enumerates the purposes of the fund. The second item in the enumeration authorizes "payment, from principal or income or both . . . of benefits with respect to wage loss not otherwise compensated for at all or adequately by tax supported agencies created by federal or state law." In other words, it is within the power of the trustees to determine that a wage loss resulting from the miners being on strike should be compensated for by payments from the welfare fund.

It would certainly be an unfortunate situation in which a wholly employer-financed welfare fund was used for the purpose of supporting a strike against the employer. Yet it is perfectly possible under the terms of the contract. (The full text of the principal sections of the United Mine Workers' contract dealing with the Welfare Fund will be found in Appendix 2, pages 370 to 373.)

If the experience of the mine operators proves any one thing it is this: *You can't afford to "sweat out" the provisions of a pension plan in continuous collective bargaining negotiations.* The most that should be attempted in normal bargaining sessions, if both management and the union are to be genuinely satisfied with the results, is an agreement on principles which can be turned over to a committee of pension specialists who will work out the details, acting upon the statement of principles as a directive for their operations, and submit the result for ratification.

For example, the "agreement in principle" might specify that the amount of pension will be "a percentage of basic earnings for each year of future service." This would leave it up to the pension specialists to write sound definitions of

"basic earnings" and "year of future service" into the final contract and to determine the percentage that would keep the cost within whatever figure was agreed upon. The titles of Chapters 3 through 14 provide a check list for the elements which should be covered (in perhaps no more detail that in the example cited) in your agreement in principle.

Although its advice was totally disregarded by the Steelworkers Union, the President's Steel Industry (Fact-Finding) Board went even further in its recommendation of *how* pensions should be bargained. Here are some of the Board's more pertinent recommendations on this matter:

> Except in the case of the Inland Steel Company there has been no discussion whatsoever between the parties. . . . We believe that it would be highly inadvisable and unrealistic to bargain seriously over a pension plan without first having a thorough study jointly made. . . . The questions as to whether the payments should be a uniform, flat one or should vary . . . and whether there should be a minimum number of years to qualify . . . all these questions should, we recommend, be left to collective bargaining *after* a full study has been made of all these factors. . . .
>
> If the joint study develops that the cost is somewhat more or somewhat less [than the union's estimate of 6 cents an hour], the amount of the pension can be adjusted accordingly. If any of the other features sought by the union are dropped or modified, this will also have its effect on the amount of the pensions. All this *must* be left to such agreements as will be reached *after* the study. [Italics added. The full text of the section of the Board's report from which these quotations were chosen will be found in Appendix 6, pages 403 to 407.]

CONTRACT RELATIONSHIPS

Formerly there were two parties to a labor agreement: the employer and the union, representing the employees. Similarly, a nonnegotiated pension agreement involved only two parties: the employer and the trust company (or trustees) or the insurance company. Here, the employees constituted a "third-party beneficiary."

With unions now in the pension picture, the mere contractual structure is infinitely more complicated. Without going into detail, here are some of the problems that arise from the tripartite nature of negotiated pension agreements:

1. If the plan is to be insured (or funded through a trust company), under what conditions, if any, can the insurance (or trust) company be made a party to the labor agreement?
2. Will an arbitrator's award under the labor agreement be binding on an insurance (or trust) company if it is a party to the labor agreement? If it is a party to a supplementary agreement which is "guaranteed" in the labor agreement?
3. How are disputes to be resolved if two of the parties to the agreement (or agreements) find themselves in disagreement with a third?
4. If two separate agreements are made (one with the union, one with the insurance or trust company), what effect will termination of one agreement have on the continuation of the other?

The legal implications of contingent relationships are beyond the scope of this book; they are suggested here merely to emphasize the need of adequate legal counsel at every stage of the pension negotiations.

There is, however, one rather tricky aspect to this business of contingent contractual relationships that you will have to solve: You may be in all kinds of trouble if you fail to recon-

cile the definition of terms in the union contract and in the pension plan. For example, you might find yourself in a lot of grief if you used one definition of "continuous service" for computing seniority, and another for determining pension eligibility. If an arbitrator (or a careless negotiator) should at some later time apply the probably more liberal definition under the seniority clause to eligibility on the pension plan, the company might find it had accumulated thousands or even millions of dollars in pension liability that it had not counted on. Merely acting in good faith is no protection: Remember how the portal-to-portal pay case worked?

NEGOTIATIONS MUST BE PREPARED FOR

Shortly after the steel strike had been settled, a division superintendent asked his company's chief negotiator, "What are you going to do if our union comes to you with a demand for pensions?" His answer provides a good clue to how every management should handle the problem: "I'm going to scream my bloody head off, and then I'm going to come and tell you to keep your shirt on because we've had a consultant working on this whole problem for six months and we know exactly where we stand, what the union's probable proposal is going to cost us, and just exactly what we can afford in the way of counter proposals."

While it certainly isn't necessary to "scream your bloody head off" in most situations when a union presents a pension demand, it certainly is good business to have one or more plans worked out in sufficient detail to know their cost and their other implications in so far as your company is concerned. The need for basic information with respect to pensions is much the same as in regular wage bargaining. You need all the wage data that are available—even if you start out with a determination not to concede anything in the course

of your negotiations. The more information you have, the greater your chances of maintaining your initial position or coming off with a satisfactory compromise. Assuming you have taken these preparatory steps, what do you do when the union actually presents a pension demand? Broadly, there are three possible ways to respond to such a demand (the first two could also be used by an employer who has not made adequate preparation):

1. You can take the union's proposal and simply turn it over to your actuaries or pension consultants to determine what the cost of the plan may be. Except in rare instances, the union proposal will represent a cost in advance of anything you can afford and also in advance of anything the union genuinely expects to get. At this point you can come back to the union and say in effect, "This plan costs so much. That's too much—what do you propose to do about it?" In this way you throw the burden back on the union to come up with a second proposal or a third or a fourth as the case may be.

2. You can adopt the attitude that the whole problem is too complex to be solved at the bargaining table. You can say in effect, "Let's set up a joint committee to study the whole problem and come in with recommendations six months or a year from now." While you may make this suggestion in good faith, it has the disadvantage of leaving you open to charges of stalling. This is probably the soundest of the three ways in which you can meet a pension demand, but it may have to be eliminated for strategic reasons.

3. You can make an immediate counter proposal and say in effect, "This plan is what we think we can afford." In this way you take the initiative of coming out with a sound proposal. The burden again goes back to the union to design and propose alternative plans which are actuarially sound and

which stay within the cost limitations you have established by your proposal.

A fourth possible way of handling a union demand for pensions is to actually anticipate that demand and to *initiate* a pension proposal yourself—either in general terms, such as an offer to talk about pensions, or in the form of a specific plan. While many negotiators question whether it is wise to do this, there would seem to be several advantages available to the employer who takes this step. By proposing a *sound* plan, the employer may have an opportunity to sell his employees on such a plan before the union gets sentiment whipped up in favor of a benefit scale that could not possibly be provided in a properly financed plan. Also, by initiating the proposal the employer has a good chance of being able to get the employees to look upon the plan as something the company is doing for them rather than something that has been "wrung" from the company by the union.

Obviously, the chances of success for an employer-initiated pension proposal vary from one situation to another. The one thing that can be said as applying to all situations is this: The employer cannot possibly hope to gain all the possible advantages of initiating a pension proposal unless he has a topnotch system of employee communications—and uses it for everything it is worth.

UNIONS WILL REQUIRE DATA

Regardless of how you decide to meet a union's demand for pensions, you can be sure that the union will demand that you give it enough data concerning your employees and their wages, etc., so that the union can come up with reasonable estimates of the cost of the pension. Just how much data unions will demand is likely to vary from one situation to another. The demands of the United Auto Workers in this

respect are set forth in the "Basic Minimum Standards" and seem to be modest. Rulings by trial examiners of the NLRB indicate that you can be compelled to deliver to the union "reasonable" data. Another ruling by a trial examiner (on an issue other than pensions) required an employer to deliver "reasonable" data to a union "in the exact form" in which the union requested it. Just how far this doctrine may be carried, it is impossible to say. Up to the present time, however, there is no indication that you can be required to "open your books" to union inspection.

No uniform rule has yet been laid down by which you can determine what are "reasonable" data. Rulings by several trial examiners, however, suggest that the test of reasonableness might possibly be this: You would not be permitted to challenge any cost estimate made by the union on the basis that data you supplied were either inaccurate or insufficient for the purpose of computing pension costs.

HEADQUARTERS NEGOTIATORS

International representatives of the union are no novelty at the bargaining table. But because of the complex nature of pension negotiations you will be more likely than ever to find the international representative taking an active role. (And you may well find the international representative to be a new man: an expert on pensions.)

You will certainly want to deal with the international representative and not with local representatives to a large degree as far as financial details and so forth of the pension plan are concerned. But you will also want to be very careful and not give the impression that you are dealing with him to the exclusion of your local leaders. Remember, the man from headquarters is going to leave as soon as the negotiations are concluded and you may never see him again. But you are going

to have to live for many years to come with your local officers and the men they represent.

Because the international representative is better acquainted with the financial and legal problems of a pension, you may sometimes find him on your side in an argument with the local union. Don't let him lull you into a sense of false security by now and then being sympathetic with your point of view. He is still a union representative, and he will be looking out for the best interests of the union just as you will be trying to protect the employer's best interests even though you may be sympathetic to the union on certain issues.

"PATTERNS" IN BARGAINING

The complex nature of pensions and the increased importance of the international representative in pension negotiations will probably have another influence on bargaining. And it will likely be an unfortunate influence. As of this time, it seems almost certain that more and more pressure will be exerted on behalf of "pattern" settlements. Just to cite one example: In reporting the settlement of the strike of the United Steelworkers at the Aluminum Company of America, the press and radio almost invariably used the phrase that the settlement was "patterned after the Bethlehem Steel plan." If for no other reason than because pensions are so complex, pattern agreements should be avoided if at all possible. So many factors are involved that what might be a relatively cheap plan for one company would prove to be an extremely expensive plan for another.

A logical extension of the pattern demands by unions will be demands for industry-wide or area-wide bargaining on pensions. We are already witnessing an example of the latter in the Toledo area, where it has been proposed by the United Auto Workers. There it is offered as a solution to the specific

problem of pensions for the small employer. While the UAW proposal has some merit in this respect, it is not illogical to assume that one of the more fundamental reasons for the union making this type of area-wide proposal is to overcome the problem of workers losing pension rights when they transfer from one employer to another. (See Chapters 5 and 22 for a further discussion of this problem.)

CONTRACT PERIODS

Finally, the traditional contract period may undergo a change because of the presence of pensions in the bargaining field. A great many labor agreements are written for 2-year periods with a wage reopener at the end of each year. But pensions are a long-term proposition. They require a long-term financial commitment on the part of the company and therefore a period of stable conditions. There is evidence that most unions are adopting an attitude which will make long-term planning possible—within certain limits. Some of the new negotiated pensions provide for a 5-year "freeze" on collective bargaining over provisions of the pension plan.

The determination of the 5-year period has a sound basis in fact. It is this: Under an insured plan, rates are guaranteed for 5-year periods. When the plan next comes up for negotiation, therefore, the company can go into those negotiations armed with knowledge of any possible changes in pension rates.

A period longer than 5 years is really desirable for sound pension planning, but this certainly is better than having to bargain on pensions every time the contract runs out. However, there is one point that will bear watching: A 5-year freeze will guarantee the pension plan if the contract is simply renewed or amended each year. But if the contract is actually

permitted to expire, will the pension plan expire with it and thus be subject to renegotiation?

Another interesting aspect of the 5-year freeze arises from the fact that 5 is not an integral multiple of 2. In other words, a sequence of 2-year labor agreements will not bring a termination date to coincide with the termination date of the 5-year pension agreement.

One thing is sure: If you have an annual wage reopener in your contract, specify that pensions are excluded except at such times as are provided in the pension plan itself. And be doubly sure that pensions are excluded from any wage arbitration. An arbitrator, with the best of intentions, can wreck a pension plan merely because he is not qualified to handle all the complicated actuarial, financial, legal, and administrative details.

If a union adopts the position that management should bargain over pensions every year, there is likely to be trouble ahead. Setting up reserves for pensions which may change as little as 12 months hence is a virtual impossibility. From a practical point of view, there will also be a situation in which the union feels it has to "deliver" something to its membership on pensions every year, and in which management will feel that it therefore has to continue the status quo just to provide the necessary stability—even though it might be in a financial position to accede to some or all of the union's demands.

CHAPTER 20

IMPACT ON INDIVIDUAL COMPANIES

The explosion of the pension issue in 1949 was felt in almost every part of the business community. The psychological effect was immediate and far reaching. Some employers who had never given a second thought to the subject of pensions practically stumbled over each other in an effort to get their hands on whatever information was available about the subject and to attend meetings where the matter was to be discussed. Unions that had previously gone on the assumption that pensions were a good talking point to be bargained away at the drop of a seniority clause suddenly changed tactics and hopped aboard the gravy train. The pension consultant became the "campus hero" of the moment and was promptly voted the man most likely to succeed in the 1950's.

Companies that had had pension plans (whether negotiated or not) for many years were about the only ones to remain immune from the initial shock. Here there was recognition that while the pension problem is a tough one, it is not insoluble. These companies were aware of the extent of the impact of pension plans on the financial position and personnel policies of the individual company. They knew that in practice as well as in theory this impact can be survived—even though the survival may be somewhat more difficult now that unions are in the picture.

FINANCIAL POSITION

One of the first questions that any employer asks about a proposed pension plan is: "How will it affect my financial position?" The questioner frequently puts emphasis on the fact that pensions are a long-term, fixed charge against the cost of doing business. "What," he may ask, "am I to do if I some time find myself in a financial position where I won't be able to continue paying the cost of pensions?"

When an employer can no longer pay the bill for pensions, he will be in the same position as the employer who no longer has enough money to pay the direct wages called for by his contract. In such a situation, the union will have three choices: It can agree to suspension or termination of the pension plan; it can agree to a reduction in direct wages while maintaining the pension plan; or it can force the employer into bankruptcy by insisting on continuation of both the pension program and the present wage scale. Just which course the union adopts will depend entirely on how shortsighted it wants to be.

One way you can prevent pension costs from becoming a "fixed charge" on the business is to relate the scale of benefits to the employee's income. Since cost will vary in approximately the same ratio as benefits, pension costs will go down if wage costs go down. But if you have this kind of an arrangement, remember that pension costs will also go *up* in the event of any general wage increase. If your pension costs were to represent, say, 10 per cent of payroll, any time you negotiate a 10-cent wage increase, you will be agreeing to take on an increase of 11 cents per hour in cost because of the 10 per cent allowance you must make for the pension plan.

However, there is probably a more important factor even

than the union in the picture in so far as terminating a plan is concerned. One of the tests a plan must meet if it is to qualify for tax exemption under the Internal Revenue Code is that it be "permanent."

The Code permits termination of a plan for reasons of "business necessity." With rare exceptions the Commissioner has limited his interpretation of "business necessity" to mean only those situations in which a firm would be almost immediately forced into bankruptcy or financial insolvency by continuance of the plan. Failure to satisfy the requirements of the Bureau of Internal Revenue in terminating a plan will cause a *retroactive* loss of tax exemption.

PERSONNEL POLICIES

Despite almost anything you may try to do to prevent it, the introduction of a pension plan is certain to have some far-reaching effects on your personnel policy.

Turnover

While not without drawbacks, the first of these effects will be mostly to your advantage: Your turnover rate will be lower, particularly among older workers. When an employee reaches the point where he can look forward to a retirement income after relatively few more years of work, he is far less likely to leave your employ for another job down the street that offers a few cents more per hour. This effect will be lessened if you "vest" an employee (give him the right to withdraw all or part of the contributions you have made on his behalf when he leaves the company). However, there will still be an inclination on the part of the long-service employee to remain with you until his normal retirement date. This is to your distinct advantage in so far as it "freezes" older and more highly skilled

workers to their job. But it is also to your disadvantage in that it provides a powerful reason for the inefficient worker to stay on the job until he reaches retirement age. At that time, a "natural exit" will be provided for such workers, and you can avoid the painful choice of retaining or "turning out cold" a man who can no longer do his work.

"Unofficial Seniority"

One of the by-products of a retirement plan is the "unofficial seniority" workers are certain to gain. Layoff or discharge of a worker approaching retirement becomes more difficult. Even if no outside pressure is brought to bear—and you can be almost certain it will be if there is a union in the picture—a supervisor will hesitate to recommend disciplinary action if there is any possibility of his thereby jeopardizing a worker's pension rights. It is worth noting, too, that this problem exists not only among rank-and-file workers but among management personnel as well. And where inefficient managers are retained through this unofficial seniority system the company is not only incurring unwarranted financial liability but may be endangering its whole operation because of the authority these men exercise.

Employee Morale

Despite the current popularity of so-called "flat benefit" plans among unions, you should assess carefully the possible effect of the adoption of such a plan on the morale of your work force before you agree to it. Perhaps the point is best illustrated by this example of what happened in one department of a manufacturing company that recently adopted a plan calling for benefits of $100 a month at age 65 after 25 years of service (with proportionately smaller benefits for

lesser service at age 65). There was a fairly heavy percentage of young workers in the department. One of the key men on the crew spent a good deal of his time telling this story to his coworkers:

"Look, I'm only 54 but I already have 28 years of service. Why should I have to sweat out the next 11 years of my life to retire on the same pension as some monkey who took a job at 40? Take my advice, boys, and get out of here and get a job some place else until you're 40. Then if you still want to come back you'll know at least that you're earning about ten cents an hour more than any fool who takes a job with this company when he's less than 40 years old."

The plant where that happened was on incentive. For 6 months prior to the announcement of the pension plan, the men in that department had, on the average, been earning about 15 per cent bonus. Within 3 weeks of the announcement of the plan, the efficiency of the department had dropped below the bonus level and there seemed to be no immediate prospect of improvement.

Although the effect is not so dramatic, the same situation can occur in a company where benefits vary with income and number of years of service—if the eligibility age is too high. For example, if the eligibility age is set at 35, a man who goes to work for the company at age 20 would receive exactly the same pension as a man who went to work at age 35 (if their earnings records after age 35 were identical). In one company where this situation exists, an employee answered his supervisor's suggestion that he take on some extra, uncompensated work (the Wage-Hour Law was not involved) like this: "Until I'm 35, Joe's earning about 5 per cent more than I am because of his pension credits. Let *him* do something for his extra money."

Hiring Policy

Your hiring policy may come in for either an official or unofficial overhauling if you adopt a pension plan with either flat benefits or with a minimum pension provided under a "service and income" determination policy. Here's why: Let's say your benefits are $100 a month at age 65 after 25 years of service. Just to have a figure for the sake of illustration, let's say, too, that the cost of such a pension is 10 per cent of *covered* payroll. If you hired all your workers at age 40, your cost would be 10 per cent of *total* payroll. Now let's say you determine not to hire anyone over 25 years of age. Allowing for turnover and mortality among your workers, you might well find yourself in a position where 40 per cent of your total wages were being paid to workers less than 40 years old. The result in such a case would be to reduce your pension cost to roughly 6 per cent of *total* payroll. And, of course, it is the percentage of total payroll that becomes a factor in your labor and product costs.

One indication of how acute this problem may become (perhaps *has* become in certain areas) was given by Murray Kempton, labor columnist of the *New York Post*, on November 29, 1949: "The expense of pensions could also aggravate the tendency of many companies not to hire new workers over 45. Middle-aged workers now have so much trouble finding jobs that the Massachusetts AFL wants the State to penalize employers who won't hire them."

Several state legislatures last year heard proposals for including a ban on discrimination because of age in the local FEPC's. And at least one Congressman has served notice that he will ask the House Labor Committee to insert such a provision in the proposed national Fair Employment Practices Act.

Promotional Policy

Do you have a policy of promoting from the ranks? You may find it stymied by your pension plan or plans unless it is carefully provided for in advance. If you have one plan for your hourly rated workers and another for salaried employees, you may place some of your very capable hourly rated men in the position of not being able to make the financial sacrifice that would be entailed in a promotion to a salaried job. You would be asking a man with 20 or 30 years of service (who might be only 40 or 45 years old) to make a tremendous sacrifice if, by accepting a salaried job, he had to start all over again to accumulate service for his new pension. Obviously, in the occasional situation where hourly workers have a pension plan and salaried workers do not, the problem is even more acute. Provision can and should be made for such contingencies in drafting a plan.

COMPETITIVE POSITION

One of the frequent arguments made in opposing negotiated pension plans for rank-and-file workers is that the resulting increase in labor costs will place the company at a disadvantage with competitors who do not have pension plans. It might be more accurate to say that the company would be placed at a disadvantage with regard to its competitors which have established pension plans in the past. The reason is this: If a pension plan is to be funded—as many of the new ones and a fair percentage of the old ones are—it costs more during the first few years than it does during subsequent years. Funding past service credit, in effect, is paying out of current income a charge which should properly have been made against past income. As soon as the funding is completed, you can keep the plan going at a "normal cost" which may

be anywhere from 25 to 75 per cent of the annual cost during the funding period, depending upon such factors as the average age of the work force when the plan was set up and the average hiring age in the subsequent years.

Thus, if you make the assumption—and right now it looks like a reasonable assumption—that most unionized employers will have a pension plan within the next decade (as will many nonunionized employers), you might come to the conclusion that the sooner you estabilish a pension plan the better off you will be. Your reasoning might be something like this:

> "Because of advances in medicine, fewer people are dying before age 65 each year. So if I wait 10 years to start a pension plan, the average age of my workers will probably be greater than it is today. Therefore, my past service liability would be increased, and the initial cost of setting up a pension plan would be greater than it is now. So if I start a plan today and complete the funding in 10 years, my pension costs will go down at the same time that the pension costs of my competitor who may wait 10 years will go up even more sharply than mine went up at the time I started the pension. So I have to answer not only the question of whether I can afford to be at a disadvantage temporarily, but also the question of whether I can hope to recover part of that loss by later gaining an advantage on the same issue."

Obviously, there is no stock solution to this problem. It has to be settled by the individual employer in the light of all the circumstances affecting him.

Labor Market

Will 10 cents an hour for pensions give you the same advantage in the labor market that 10 cents an hour in direct

wages gives your neighbor across the street? More specifically, to what extent does a man seeking a job choose the one that pays \$1.50 an hour instead of the one paying \$1.40 an hour plus a pension of \$100 a month 25 or 40 years hence?

Some research on this subject is sorely needed, but to date no one has come up with any reliable statistics. Probably one of the reasons for this is that most of the companies that have established pensions in the past have looked upon these pensions not in the new legal sense of "deferred wages" but as special rewards for long service. Here again, adequate statistics are not available but the data at hand seem to indicate that most of the companies with pensions were also those companies which were paying at least the "going rate" or more in direct wages.

There is, however, plenty of evidence that has been gathered by psychologists and the opinion pollers to show that both "Joe" and his college-trained brothers are seeking "security" above all other things when they take a job nowadays. Directly on the subject of pensions a survey of worker opinion by *Factory Management and Maintenance* published in October, 1949, showed that 74 per cent of all workers said they wanted pensions when offered a choice of three items from the following list: sick pay, life insurance, payment of hospital bills, pensions, profit sharing, and payment of doctor's bills. So if you offer a pension plan, it will probably get at least a careful consideration by the prospective employee as an offset to a higher direct rate that might be offered by a "labor competitor."

CHAPTER 21

IMPACT ON THE NATION

Sane analysis of the broad implications of private pensions requires recognition of this key point:

Production (in the broad sense of that word) is the nation's only source of wealth. If some of that wealth is to be put aside to pay pensions to those not producing, someone who is producing is going to have to do with less.

If you look around, you'll probably come to the conclusion that the money to pay pensions can come from only one of three sources—profits, prices, or pay. Let's take a look at those three sources, one at a time, and see how much of the cost of pensions could be derived from each source and what the effect would be.

PROFITS

When a company makes a profit, it doesn't just put the money in a vault. First, it shells out up to 38 cents of each dollar in taxes to Uncle Sam. Then it divides what remains between stockholders and capital outlays for modernization, improvement, and expansion.

While Uncle Sam is willing to help pay the cost of pensions (up to 38 cents on the dollar) by giving a tax exemption to employers' contributions under certain conditions, it is necessary to find the other 62 cents or more before the U.S. Treasury will offer any assistance whatever.

Maybe some of the money to pay the pension costs should

come from funds being "poured" into modernization and expansion? Something like seven or eight billion dollars was spent for this purpose in 1949 alone. Some unions have suggested that this should be done. Then they take two or three deep breaths to fill their lungs and scream across the nation that industry is trying to precipitate another depression by its failure to keep up with an expanding economy. Few businessmen are as shortsighted as these unions suggest. And most of those who were had their vision corrected in a rather brutal manner by the depression of the 1930's.

There is, however, some validity to the union's conclusion that some industries are not expanding fast enough to keep pace with the potential rate of growth of the economy as a whole. The reason is not any desire to create another depression, but rather the fact that funds available for distribution as dividends are already so limited as to make unattractive the possible returns on risk investment. The record of 1948, in fact, shows that dividends as a percentage of national income had been reduced to less than two-thirds of the 1939 level.

Does this mean that the stockholders' share of the profit dollar is completely unavailable to help pay pension costs? As a generality, yes. In certain isolated instances, the answer is an equally definite, no. The President's Steel Fact-Finding Board took special cognizance of this point even as it related to the 19 more or less similar companies whose circumstances it studied most closely. The Board said, "There should be a return to collective bargaining in order to provide an opportunity to each company to prove that the considerations, conclusions, and recommendations herein discussed are in fact not applicable to it."

The more often such sound advice is disregarded, the more often will inequitable strain be placed upon individual groups

of stockholders and the more grievous will be the resulting dislocation of our investment structure.

PRICES

If profits cannot "give" enough to pay for pensions—or at least can take up no more than the small part of the slack—how about including the cost of pensions in an increased selling price of the product? This has been the traditional pattern of the past, and because of the noncontributory nature of most of the pension plans being established at this time, it seems likely to continue. The economy has managed to survive three general "rounds" of price increases since the end of the war, and we will probably be able to survive a "pension round." While the "pension round" may work a minor hardship on some people, it seems likely to produce considerably less dislocation than resulted from any of the first three rounds. The reason for this is simple: Each of the first three rounds affected virtually every company within a period of one year. Therefore, a general wage increase of 10 per cent, say, was reflected almost immediately by a general price rise of the same magnitude. The "pension round" seems most unlikely to be completed within a period of one year. More likely, it will cover a decade. Spread over 10 years, an increase in labor costs of 5 or even 10 per cent to pay for pensions can probably be absorbed in the present price structure without too much difficulty.

As a matter of fact, once the "basic" industries get some "pension" price rises out of the way, we may never be able to detect any *general* price increase as the result of the "pension round." The reason is that while individual companies may have to increase prices to offset the immediate effects of the installation of a pension plan, the productivity gains that may be expected over a period of the next decade should be

sufficient to offset these increased costs and to keep the general level of prices more or less in line. However, don't fall for the argument that "productivity increases" will pay for pensions. No matter how much productivity increases, the consumer will still pay the bill. The price reductions that the consumer would normally get will have to go for pensions. Whichever pocket you take it from, it's still the consumer's pocket.

Handling pensions by paying the bill through increased prices may not result in any major economic dislocation, but it will certainly introduce a great inequality in our economic structure.

The Bureau of Internal Revenue reported that 3,290,608 workers were covered under the 6,862 pension plans which had received favorable rulings under Section 165(*a*) of the Internal Revenue Code as of August 31, 1946. While a few unapproved plans were then in operation, and a few more may have been added, it is still safe to estimate that the total number of workers covered at the start of 1950 is less than twice that of 1946. So what we have is a situation in which 150 million American consumers are footing the pension bill for less than 7 million workers. Except in so far as those workers and their families also are consumers, the consumer is receiving no direct return for paying the pension bill. However, as private pensions spread, there will be fewer and fewer consumers who will not be covered under pension programs, and therefore fewer consumers who will be paying for something they do not receive. While it is an entirely theoretical approach to the problem, it can justifiably be said that we would have a perfectly fair and equitable situation if every worker were covered under a noncontributory plan which was supported within the price structure. This, as a matter of fact, was the theory behind the original Social Security Act. In practice, however, the Social Security Act only covers about

35 out of 60 million workers, so there are roughly 25 million workers and their families who are paying higher prices as a result of the Social Security payroll tax (that part assessed against the manufacturer), which becomes part of the price of the product, but who are receiving nothing in return.

The most unfortunate thing about this whole picture is that the marginal company—which, all other things being equal, is least able to provide job security for the worker—will be the least able to provide a pension for the worker. So the worker employed by the marginal company will really get hit twice: first, by paying for pensions through higher prices; and, second, by having little hope of ever receiving a pension for himself.

PAY

How about the worker's paying for his own pension? Theoretically, this is the best solution. From a practical point of view, two facts have to be recognized.

First, as a result of the report of the Presidential Steel Industry Board, the Administration is now more or less on record as a matter of policy favoring the noncontributory plan. However, Administrations can change, and policy can change even though Administrations do not. So this may be no more than a temporary condition.

The second fact we have to face is one which almost certainly—though most unfortunately—will always be with us: The low-paid worker cannot hope to raise a family under decent conditions and still put aside enough to support himself as an "unemployed" worker after 65. These men are going to require help.

Despite what may be termed these "practical limitations" on the extension of the contributory principle in pension plans, there are many sound reasons why this principle should

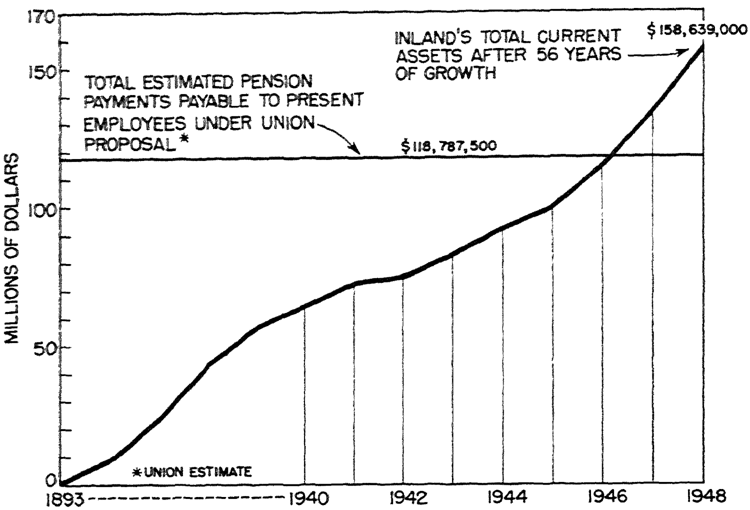
be adopted wherever possible. Some of the points have been made by indirection in considering profits and prices as possible sources of pension funds. Others were developed in detail in Chapter 6 on Employee Contributions. There is, however, one aspect of the problem which bears noting here. It relates to the question of the low-paid worker who can neither afford to provide his own pension nor to make substantial contributions in a contributory plan: There is no reason why you should not contribute a much larger share of the funds necessary to provide a pension for the lower paid worker than you do toward providing a pension for the higher paid man. This practice has been followed for years by some of the best-known contributory plans.

HOW MANY BILLIONS

One of the questions that must be answered before it is possible to assess accurately the impact of private pensions on the economy is, "How much are pensions likely to cost?" No one has yet been able to come up with a really satisfactory answer to that question.

One possible approach to the problem is to take the cost for one company, make the probably invalid assumption that this company is typical, and expand the figures to cover all business. In his testimony before the Steel Industry Board, Mr. William G. Caples, manager of industrial relations of the Inland Steel Company introduced the chart shown on page 336. In this chart, Mr. Caples compares the union's estimate of total pension payment liability for the Inland Steel Company with the total current assets of the company. It is worth noting in this connection that Mr. Caples also presented cost computations which he said showed that the union had understated the annual cost of $125-a-month pensions at the Inland Steel Company by 59 per cent. (The union's estimate was

$224 per employee per year; the company's estimate was $555 per employee per year.) If we assumed that the relationship of the pension liability and the assets of Inland Steel Company are typical of the nation as a whole, we would come to the conclusion that the pension liability of all business is somewhere in the neighborhood of $150 to $200 billion.



Senator Taft (R-Ohio) suggested at a news conference in mid-December of 1949 that pensions of $100 a month "for everybody over 65" would cost approximately $12 billion a year. The Senator was talking about a federal pension system. But if we assume that to cover 60 million workers would cost 40 per cent of what it costs to cover all 150 million Americans (60 = 40 per cent of 150), then the cost for 60 million workers would be $5 billion a year.

Another estimate of the cost of pensions was made in the December, 1949, issue of *Factory Management and Maintenance Magazine* by the author and M. J. Murphy, Associate

Editor. This estimate was for the cost of *fully funded* pensions of $100 a month at age 65 for all workers in nonagricultural industries:

> We know that a paid-up pension of $100 a month for a man 65 costs about $14.500, based on life expectancy. We know that about 500.000 workers in nonagricultural industries reach 65 each year. If we assume each of those workers will get a pension of $100 a month, the annual cost would be about $7¼ billion.
>
> We also have about 2¼ million workers who are already over 65. For some, pensions of $100 a month would cost less than $14,500 (because if the worker is over 65, his life expectancy isn't so great). If we assumed the cost was half of that, there is an immediate charge of about $15 billion for retiring present over-age workers.
>
> A really sound pension requires that money be set aside year by year, rather than waiting until the day a man retires to put it up. This is called "funding past service credit." How much this costs depends on how old workers are.
>
> The new Ford pension will provide $100 a month, including Social Security. The cost to Ford of funding past service credit is estimated at $200 million. That's about $2,000 for each of 100,000 workers. For a straight $100-a-month pension, the cost would have been $2,500 or more.
>
> Let's see how this would work out for all workers if we assume the Ford cost is typical. There are now about 49 million nonagricultural workers under 65. At $2,500 each, the cost of funding past service would be over $120 billion. It is customary to fund past service credit over

a 10-year period, so the cost would be about $12 billion a year.

Once past service credit is funded, payments into the pension reserve will remain there for a period of years before they are paid out, so some interest will be earned. If they stay in the reserve an average of 20 years at 2% interest, only 72¢ must be paid in to have $1 on the day a man retires. The annual carrying charge would therefore be reduced to 72% of $7¼ billion, or about $5 billion.

Adding these charges up, we see that $100 a month at 65 for all nonagricultural workers would cost $32 billion in 1950, $17 billion a year from 1951 through 1960, and about $5 billion a year thereafter.

LOSS OF TAX REVENUE

It will not happen, but for a moment let's assume that pensions of $100 a month were to be provided for all workers at age 65 starting right now. And let's forget past service credit and just estimate the cost at $5 billion per year. Since we're already making one wild assumption, let's make another: that business could take this $5 billion a year out of profits. The loss in tax revenue to the federal government would be almost $2 billion—at a time when the government is already running at a $6-billion deficit. This would create a need for more federal taxes at a time when tax relief is urgently needed.

INVESTMENT PROBLEMS

If we are to accept the present legal interpretation that pensions are "deferred wages," then the employer must in one way or another *guarantee* that those wages will be paid when they become due. This means that plans will have to

be fully funded. You can fund a plan either through an insurance company, through a trust company, or through a special trust that is set up for the purpose. In virtually all states, insurance companies are restricted in the type of investments they may make for the very reason that the company has to be able to guarantee payment at some future date of the liability it has incurred. So insurance companies are limited almost exclusively to government and municipal bonds and to so-called "blue chip" securities. State restrictions on trust investments are somewhat more liberal, but by and large the trust company can buy only high-grade securities.

If pension plans spread far enough and fast enough, and if enough of them are funded, the billions of dollars that will be placed in the hands of insurance and trust companies will be in competition for the relatively limited number of high-grade securities available. This may well force prices of such securities up until actual yields are reduced almost to the vanishing point—and thereby increase not only pension costs, but rates on all types of insurance.

Some of the special trusts established by individual employers to handle pension funds have attempted to avoid this problem by investing money in the company itself. From the employee's point of view—and it is the employee who rates prime consideration in this entire pension question—such an arrangement is virtual suicide. If the company goes bankrupt or is otherwise forced out of business, the employee loses two ways: He is out of a job, and any possibility of receiving the deferred wages which will be due him at some future time (now, if he is already retired) vanished with his work. The supposed justification for such a practice is found in the fact that funds accumulated by the Social Security Administration are placed in the general government fund where they are available for lending by government agencies

or corporations. The distinction must be made between what is sound practice for the government and what is sound practice for the individual employer. If some of the Social Security money loaned by the government is not recovered in the scheduled time, the government has taxing power with which to make good the deficit. The individual employer does not have any taxing power. So while you may disagree with the practices of the Social Security Administration from either a political or economic point of view, you have to admit as a practical matter that as long as the United States Government stays in business it will be possible to pay Social Security pensions when they become due. Right there is the heart of the matter: The United States Government is far more likely to stay in business than is any single employer.

IMMOBILE WORKERS?

Professor Clark Kerr of the University of California has estimated that the average American worker changes his job some 12 times during his working life. If pension plans—with usually a minimum requirement of 20 or 25 years' service—become prevalent, we may find workers "frozen" to their jobs. This will have both advantages and disadvantages for the individual employer and for the worker.

For the employer, it means a lower turnover rate. So the employer can really expect to recover part of his pension cost by what he saves in not having to hire and train many new workers. But it is frequently the case that a new worker brings to a job skills which he could not have acquired except in other employment. It is possible, too, that employees who become dissatisfied will no longer quit as they have in the past. Despite the dissatisfaction, they may figure it is worth while hanging around for another 5 or 10 or even 20 years in order to collect a pension that would not be available to them if

they changed their employer at this stage of the game. Obviously, a disgruntled employee is not very likely to be an efficient employee.

WHAT ABOUT DEPRESSIONS?

If we have another depression, a lot of companies are certain to go out of business. But a lot of companies go out of business even in good years. When a company with an unfunded pension plan goes out of business, the employee is left high and dry. Where an employer has a fully funded plan, however, the situation may be quite different. Workers who have previously retired under such a plan will continue to receive the income even though the company goes out of business. And it is possible to have the funding so arranged that if the employer goes out of business, the employees who thereby lose jobs will be able to recover in the form of immediate cash payments some or all of the "deferred wages" which had been set aside for them up to the time of the company's failure.

Some economists have estimated that if as many as 25 per cent of all workers were covered by fully funded pension plans, the effect of any future depression would be materially lessened; if 50 per cent were covered, that a depression might actually be averted. The reason is this: People who would otherwise be public charges or charity cases would, instead, be self-supporting and maintain enough purchasing power to help stabilize the economy. (It is only fair to note that other economists take violent issue with this whole line of reasoning.)

PART FIVE

WHAT'S AHEAD FOR PENSIONS

CHAPTER 22

WHAT'S AHEAD FOR PENSIONS

Will pensions "bankrupt free enterprise"? Kill "individual initiative and thrift"? Lead to socialism?

Some management people are throwing their hands in the air and saying that pensions are a job for the government; that the problem is too big for industry to handle. A few are hiding their heads in the sand and pretending the problem doesn't exist.

Other people, like Eugene Whitmore, editor of *American Business,* have made a more sober appraisal of the situation. Writing in the November, 1949, isssue of *American Business,* Mr. Whitmore said, "It would seem at first glance that management would be fully justified in telling labor to go to hell with its demands for pensions." Reporting on his second glance, Mr. Whitmore added, "Here then are the issues: Shall we fight out the 'security' benefits in a long-drawn guerrilla warfare with both sides sustaining frightful losses which will wipe out all probable gains for the next generation? Or will labor and management both rise above penny-ante unionism and penny-ante management, and join hands to conduct an intelligent study of pension and security plans? . . . The most far-sighted leaders believe that the present situation may hold a real opportunity for management and labor to get together and work out a solution—or a dozen solutions."

Who's right? Mr. Whitmore? The head-in-the-sand boys? The view-with-alarmers? Just what *is* ahead for pensions?

UNION DEMANDS

The CIO, on the record, is all-out for flat benefit pensions: the $100-a-month formula. But CIO leaders admit that in the present drive for $100-a-month pensions they're merely attempting to establish a minimum on which they can build in later negotiations. CIO pension proposals to date have included no vesting provisions. CIO admits, on the record, that this is a concession to get plans established at reasonable initial costs. It's doubtful that CIO will shoot for vesting provisions at all until it has exhausted any possibility of industry-wide or union-wide pension plans, which would produce the same effect. In its public statements, CIO has been adamant in its insistence on noncontributory pensions; within a month of winning the steel strike on this very issue, two CIO unions signed contracts with companies calling for contributory pensions. The UAW in Toledo has come up with a proposal which would cover all UAW members working for 125 employers. The plan has made little headway. CIO officials admit privately that even if the area concept can be sold in Toledo, it will be difficult to sell it elsewhere. If it is no go in Toledo—and it looks as though it isn't—the idea is a dead duck.

The AFL has traditionally been little interested in pensions. But opposition has been fading gradually, and AFL now seems ready to hop aboard the pension band wagon, bag and baggage. AFL's new position is reported in a "research report" to negotiators released in late 1949. AFL now says it wants either industry-wide or craft-wide plans. Many AFL members are in industries where work is either semipermanent or transient. AFL's answer to the problem is full and immediate vesting of employer payments to the pension fund—and AFL insists that vested rights should be in cash. While AFL has

the precedent of several union-administered welfare funds (Petrillo, IBEW, ILGWU), present AFL stand seems to favor letting the employer take the responsibility for setting up individual plans. Up to now, AFL has stayed pretty much on the side lines of the contributory issue. Now AFL has adopted the NLRB position that pensions are deferred wages. Therefore, it says, all payments to a pension fund are *employee* contributions. This looks like the opening gun in an AFL campaign for noncontributory pensions, but with a loophole that's plenty big enough to justify any kind of settlement.

AHEAD: *At the bargaining table,* opportunism will continue to be the keynote. But you can expect little change in the present pattern of negotiating pensions on a company-to-company basis. For the next five years unions will concentrate on trying to establish almost any kind of a pension with a decent minimum guarantee. Small employers are likely to be squeezed hard until we get some changes in federal laws that make it easier to set up multiple-employer pension plans. The most we're likely to see in this line in the next five years is a few small-scale attempts to try out some of the possible ways of covering workers in small companies. The "second round" will probably see the emphasis shift to plans that permit a worker to "take his pension with him" when he leaves his job. But if we hit another period of inflation, unions will ease off on demands for pensions temporarily while they go all-out for direct wage increases. When it suits their purpose, unions may refer to pensions as "deferred wages," but you can bet that they wouldn't accept a deferred wage increase in a period of inflation. Chrysler may be the tip-off on a shift in emphasis from negotiating benefits to negotiating costs.

UNION-ADMINISTERED PLANS

Good management of union welfare funds by Dubinsky of the AFL's International Ladies Garment Workers' Union, and Potofsky of CIO's Amalgamated Clothing Workers' Union had gone a long way toward creating public and management confidence in such funds. It had also disguised some of the inherent weaknessses in this kind of program. Then John L. Lewis came along with his Miners' Welfare Fund and gave the whole nation a good lesson in just what's wrong with this particular kind of a pension plan. As a consequence, a lot of people started asking questions about funds of this type that should have been asked long ago.

Is it fair to require that an employee remain a member in good standing of a particular union for 20 or 30 years in order to get a pension? Isn't that the same thing as a closed shop? And what would happen if the employees decided to boot out one union and vote in another? Say the UE (ex-CIO) has a contract with an employer that gives it complete control of a pension fund. The pension contract runs for five years. At the end of one year the employees vote out the UE and vote in IUE (CIO). Who runs the pension plan? In which union must the employee retain his good standing in order to qualify for a pension? One suggested solution is that management might ask the unions to insert in the contract an "heirs and assigns" clause binding any successor union, just as management is frequently asked to include an "heirs and assigns" clause. It might work. It's worth trying. But what if UE had control of a fund covering the entire electrical industry and employees in only half of the bargaining units in the industry voted to change to the IUE? How could the employees protect themselves other than by voting to continue the present union?

The New York State Court of Appeals recently affirmed a decision which held that an employer is required to pay for life a pension to any employee retired during the term of a contract. If the pension fund goes broke because of mismanagement by the union, is the employer still liable? And which employer, if the employee has worked for several?

If the union has the sole responsibility for managing the pension fund, what assurance has the employer that the union will maintain the fund on an actuarially sound basis so that pensions can be paid when promised? Lewis has provided the perfect example of how irresponsible union management can squander welfare funds.

AHEAD: *At the bargaining table,* unions are asking for a joint board of trustees to manage pension funds and plans; they are settling for a voice on the administrative committee of a plan financed through an insurance company or a responsible trustee. They will continue to, although in the second round they will insist on a bigger voice.

In Congress, look for a tightening up of restrictions on union-administered pension and welfare funds. Even if a new Congress should repeal Taft-Hartley and go back to the Wagner Act in 1951 (which is doubtful), there's a chance Congress will tie up such funds to a considerable extent through changes in the pension regulations in the Internal Revenue Code.

FEDERAL PENSIONS

Expansion and liberalization of Social Security may be an accomplished fact by the time this book is in print. If not, it certainly won't be long coming. But the 1950 revision of Social Security will provide only a small indication of what

some people are suggesting should be done. Either scared or confused by the present union pension drive, some management spokesmen are seriously proposing that the federal government take over the whole pension problem. A few have gone so far as to suggest that private pensions should be outlawed.

More often, the suggestion is that a Federal Pension Act similar to the Railroad Retirement Act should be passed. The Railroad Retirement Act is a good deal more liberal than Social Security in the pension it provides, based on the first $300 of monthly income. Besides, it is supported from general government funds rather than by any direct tax on either employer or employee. From the employee's point of view it has the advantage of providing a pension based on all years of employment regardless of how many times a man changes his job (within the railroad industry). If such a plan were to cover all employment, most employees would probably be able to accumulate about 40 years of service before retirement. The benefits are equal to years of service times 2 per cent of the first $50 of average monthly earnings, plus 1½ per cent of the next $100, plus 1 per cent of the next $150. For a man averaging $50 a week during his working life, that would mean a monthly pension of about $135. For all practical purposes the maximum monthly pension under the Railroad Retirement Act is $180 a month.

AHEAD: *From Congress,* extension and liberalization of Social Security in 1950. Then we'll have at least a five- and probably a ten-year breather before any more changes are made in Social Security. Possible exception: Further extension in coverage. The $100-a-month minimum Social Security benefit proposed by Secretary of Labor Tobin was a trial balloon and will remain that.

The Railroad Retirement Act was passed to bail out the railroads and railroad brotherhoods when their pension systems got in trouble. There's just an outside chance Congress might do the same thing with the Coal Miners' Welfare Fund. Steel and telephone pensions are too well planned to get into that kind of trouble in the near future. No other industry is sufficiently "pensionized" for Congress to step in. There isn't even a remote chance that Congress will outlaw private pensions.

At the bargaining table, increases in Social Security won't take much pressure off the demands for private pensions. Unions will insist that if an employer could afford a private pension of $70 ($100 less Social Security) in 1949, he can afford as much or more when the pension plan is renegotiated in 1954 or 1955.

TAX REGULATIONS

One of the big stumbling blocks to negotiating pension plans is the fact that the plan must meet the very stiff requirements set down by the Bureau of Internal Revenue if the employer is to be able to get a tax deduction for his contributions. It means you practically have to have the tax lawyers sitting in on every negotiating session. Amending a plan requires approval from the Bureau of Internal Revenue, too. It's just possible that because of the changes to be made in Social Security laws, many plans now in existence will require amendments in order to retain their tax-exempt status. But any change in a pension plan must be negotiated with the union (even if it's a liberalization of the plan), if you want to avoid an unfair labor practice charge. If an employer is forced to get union consent for a minor change in order to keep tax exemption, the union will be in a position to require almost anything in the way of concessions without any need

to even threaten a strike. (Failure to amend the plan as required by the Bureau of Internal Revenue could mean a *retroactive* loss of tax exemption. Termination of the plan would certainly mean this.)

Another thing that a lot of people have felt is unfair about this pension business is that an employer may get a tax deduction for his contribution, but the employee gets none. This fact has been responsible for a lot of the argument over contributory plans. The advantage to an employee if his contribution were tax free would be tremendous. Assuming the employee is in a 20 per cent tax bracket, he could contribute $1 instead of 80 cents. A change in the tax law making employee contributions to qualified pension plans deductible would take a good deal of the sting out of contributory plans.

AHEAD: *From the Bureau of Internal Revenue,* expect a clarification of what the new Social Security law means to pension regulations within 6 months to a year, maybe less. The Collector's office has been studying this problem closely ever since the House of Representatives began preparing a bill in early 1949. Unless a hitch develops, it should be able to get into action fast. While the new regulations won't be any less stringent for new plans, you can expect a fairly liberal attitude on the changes that will be required to bring old plans into line with new Social Security. It's a tossup on whether the Collector's office will be tough or lenient in the amount of time it permits to make necessary revisions.

From Congress don't look for any fundamental revisions in the laws governing tax exemptions for pensions within the next five years. Possible exception: A change that would grant tax exemption only to actuarially sound plans—either through an amendment to the law or a new

interpretation from the Bureau of Internal Revenue. Don't look for Congress to grant tax exemption for employee pension contributions unless enough contributory plans are set up so that really large numbers of employees become affected.

LABOR LAW

When the Taft-Hartley Act was passed, Congress heard a good many management spokesmen suggest that Congress write the then-pending Act in such a way as to exclude pensions from the area of compulsory collective bargaining. Instead, Congress repeated the ambiguous language of the earlier Wagner Act and left the decision up to the NLRB and the courts. With the Inland Steel and W. W. Cross decisions, there is no longer any doubt that companies must bargain in good faith on pension and welfare demands. During 1949, numerous management spokesmen repeated the suggestion that Congress remove pensions from the area of collective bargaining. A few went so far as to suggest that this was the "only solution" to the pension problem. When Congress revises the Taft-Hartley Act in 1951—as it seems almost certain to—it will hear a thousand and one suggestions for other limitations on pension bargaining. None is likely to get very far.

John L. Lewis' 3-day week for miners revived talk of possible Congressional limitations on industry-wide bargaining or application of the antitrust laws to unions. Except for mild limitations in the Taft-Hartley Act, national policy for the past 15 years has favored bigger and bigger bargaining units. There's little prospect for a reversal of this trend. Besides, it's very doubtful whether antitrust regulations or a ban on industry-wide bargaining would prevent multiple-employer pension plans.

With pensions now officially interpreted as deferred wages, Congress will hear demands for revision of the Wage-Hour Law to include pensions in regular rate of pay. It's logical, but the practical problems are literally fantastic. In the 1949 revision of the Wage-Hour Law, Congress cleared up an old section that was possibly ambiguous in such a way as to definitely *exclude* pensions that meet certain standards from regular rate of pay.

> AHEAD: *From Congress,* don't expect any action that will take pension plans out of the area of statutory bargaining. Except for a possible crack-down on John L. Lewis, any labor law changes in the foreseeable future will involve easing rather than tightening of restrictions. Congressional committees will do a lot of talking about industry-wide bargaining and applying antitrust laws to unions, but it's a ten-to-one shot that no forceful action will be taken. And it's a hundred-to-one that any action would take the heat off pensions. There's an outside possibility that Congress will take note of the fact that pensions are now "deferred wages," and either grant tax exemption to *all* pension plans, or make it an unfair labor practice for a union to "force or attempt to force" employer payments in support of any plan that does not qualify for tax exemption under the Internal Revenue Code.

INVESTMENT PROBLEMS

Something that is worrying economists both in and out of the government is the effect of gigantic pension funds on the investment market. To many, the problem is a small dark cloud on a faraway horizon. A few, however, are already viewing with alarm. Regulation of security investments by

insurance and trust companies is largely in the hands of the states. Although some liberalization in regulations has taken place, most such organizations are limited to government bonds and gilt-edge securities. Loosening up the regulations doesn't seem to be much of a solution. While it might increase the amount of venture capital available, it would add an element of risk that should be avoided by pension funds if at all possible. The yield rate on securities available for insurance and trust investment has already been depressed by the competition of too many dollars. Compound interest is a big factor in keeping the cost of a pension plan within reach of any employer. If interest rates continue to drop, something will have to be done.

AHEAD: *From the Treasury Department,* expect a polite but chilly *No* to any suggestion for a special government issue of pension bonds similar to those authorized by the Railroad Retirement Act. The Treasury couldn't take this step without Congressional authorization. Because of both political and administrative problems involved, the Treasury will oppose such authorization until the investment crisis gets acute. It may oppose special bonds even then.

LONG-RANGE VIEW

If management and labor were to take Mr. Whitmore's suggestion and join hands to conduct an "intelligent study of pension and security plans," what sort of proposals would they come up with? And assuming the government made the necessary changes in the tax and labor laws to make it possible to put those proposals into operation, what would the "pension situation" be in, say, 1960? The first thing we can be sure of is that it would be totally unlike the situation that

would exist if either management or labor could do its planning without reference to the other.

Where would the planning start? A good place to start might be with a couple of figures about how long workers work and how long pensioners live. If we assume that a man works from the age of 20 to the age of 65, that's 45 years. And then we know that a pensioner can expect to live about another 15 years beyond retirement. That's a total of 60 years of life from the time a man starts working. Twenty-five per cent of those years are post-retirement years. So we could start from the premise that 25 per cent of a man's wages should be deferred to support him in retirement. Actually, we know that once a man has retired he needs less to live on, because by the time he is 65 most of his family responsibilities are behind him. So let's say that two-thirds of that amount, or roughly 17 per cent of his wages, should be deferred.

Now let's say that our labor-management committee agrees that while it is desirable to defer 17 per cent of income, no individual should be *forced* to defer that much. But he should be required to do some saving toward his retirement. So we have to have an option in our plan. Let's say we're going to arrange it so that about one-third of this, or 6 per cent, will represent a purely voluntary saving. That still leaves 11 per cent of income to be deferred.

Who's going to pay the bill? The chances are that 11 per cent would be more than any employer could afford. Considering the fact that it might be as much as 17 per cent for some employees, it would certainly be out of the question. But on a 50–50 basis, we might be able to get away with it. It would mean 5½ to 8½ per cent each for employer and employee. If we assume that all of the Social Security tax represents pension cost (part of it is really for other benefits) and add this to the cost of private pensions, some employers

are already paying upward of 8 per cent of payroll. Employees are now paying 1½ per cent of income toward Social Security, and it is estimated that the cost of the benefits provided in the 1950 revision will require a tax of as much as 3½ per cent of covered income by 1960 or 1970. Let's base our assumptions on 3½ per cent each for employer and employee as Social Security tax. If we can work out a really good program, the employee can probably manage the extra 2 per cent to get up to a total of 5½ per cent of income. And a really good program means a guarantee that pensions will be paid when due.

This is the point where the labor representatives on the committee ask for a concession in return for agreeing to contributory pensions. "Don't we get anything," they ask, "in return for our contribution to the company's success? After all, up to this point all you have agreed to do is to defer some of our wages." Management doesn't feel it can take on any more fixed responsibility, so the solution looks like a deferred profit-sharing plan.

Has our committee simply "agreed in principle" on a meaningless hodge-podge, or do their agreements form the basis of a sound, coordinated program? Well, let's see. Five elements would be included:

1. Social Security. Cost: 3½ per cent each for employer and employee.
2. "Basic" private contributory plan. Cost: 2 per cent each for employer and employee.
3. "Optional" private contributory plan. Cost: Up to 3 per cent each for the employer and employee.
4. Deferred profit-sharing plan. Cost: Variable, depending on profits above reasonable return on investment.
5. Guarantee of pension payments.

Examining such a program, our committee might come to the conclusion that it was a "good generalization" but nothing anybody could sink his teeth into. Can't we fill in the cracks and corners here and there, and be specific in our proposals? We may not be able to cover all the angles, but at least we should be able to come up with something other than the platitudes so frequently found in the reports of committees of this type.

After we have done this, here's what the program looks like:

1. *Social Security*

a. Extend coverage of the Act to all workers, including the self-employed.

b. Maintain the present scale of benefits (1950 revision) for all employed workers.

c. Provide an optional benefit of 50 per cent additional pension for self-employed workers. To qualify for this additional pension, self-employed workers would pay a higher tax.

2. *"Basic" private contributory plan*

a. The employee and the employer would each contribute 2 per cent of income.

b. The employee would get an immediate vested right in the employer's contribution.

c. In recognition of past service to the employer he is working for when the plan is started, each employee would be credited with 2 per cent of total past earnings with this employer. (This is the same amount the employer would have contributed in past years had the plan been in operation.)

(1) Cost of this past service would be paid into a pension fund on a regular schedule, and in large

enough amounts each year to insure that each employee's pension is fully paid for by retirement.

(2) After allowing a 6 per cent return on net worth and surplus, 5 per cent of the profits at the end of each year would be allocated to reducing the charge made against either surplus or income for the payment of past service credit. If the amount of profits set aside in this fashion is more than enough to cover the current charge for past service credit, the balance might either be "carried forward" in anticipation of future charges or be used as a direct contribution to reduce the remaining unpaid past service credit.

d. The "basic" pension plan would not guarantee any definite schedule of pension payments. Each individual's pension would be determined by the total amount of money in his personal account at the time of retirement. (Over a period of 40 years, the money in this account should be enough to provide a pension of one-quarter to one-third of average earnings.)

e. Contributions of both employer and employee should be deductible for tax purposes. Pensions, when paid, should be taxed to the employee as income.

3. *"Optional" private contributory plan*

a. The employee would have the option of contributing not more than an additional 3 per cent of his income to a pension fund.

b. The employer would match whatever contribution the employee makes.

c. The employee's contributions would be returnable at any time.

d. The employer's contribution would not be vested with the employee until retirement, except in the event of permanent layoff for lack of work.

e. The "optional" pension plan would not guarantee any definite schedule of pension payments. Each individual's pension would be determined by the total amount of money in his personal account at the time of retirement. (With maximum contributions over 40 years—if the employee stayed with one company—the money in this account should provide a pension of one-third to one-half average earnings.)

f. Contributions of both employer and employee should be deductible for tax purposes. Pensions, when paid, should be taxed to the employee as income.

4. *Deferred profit-sharing plan*

a. After allowing a 6 per cent return on net worth and surplus, 5 per cent of net profit would be placed in a special fund each year.

(1) After past service credit is fully paid for, the amount of profit placed in the special account for distribution at retirement would be increased to 10 per cent, after allowing a 6 per cent return on net worth and surplus.

b. Allocation of the money in the fund among employees should be on the basis of earnings for the year.

c. Employees would have no vested right in funds allocated to their accounts, except in the event of permanent layoff for lack of work.

d. Money in the accounts of employees who leave the company voluntarily or are discharged for cause would be reallocated among the remaining employees on the basis of total earnings to date.

5. *Guarantee of pensions*

a. The federal government should either establish a central Pension Bank or authorize banks and trust companies to establish "employee pension accounts."

(1) When an employee terminates his service with an employer, all of the money in his "basic" account with that employer would be transferred to an account in his name in the Pension Bank.
(2) If the employee chooses, his contribution to his "optional" account would also be transferred to the Pension Bank.
(3) At the time the employee retires, all of the money in all of the accounts with his last employer would be transferred to his account at the Pension Bank.
(4) His pension would then be paid by the Pension Bank, based on the total amount of money in his account at that time.

b. A "Federal Pension Insurance Corporation" should be established in the pattern of the Federal Deposit Insurance Corporation.

(1) The FPIC would guarantee deposits in employees' accounts, up to a reasonable limit.
(2) The FPIC would underwrite the actuarial risk of retired employees living longer, on the average, than was assumed in computing the monthly pension that could be paid on the basis of their deposits.

c. The Treasury Department should issue a series of special pension bonds.

(1) The bonds should bear interest at a rate higher than the rate paid by most government bonds.
(2) These bonds should be available only to Pension Banks and to trustees of employers' pension funds.
(3) These bonds should be available only in an amount sufficient to provide for investment of employees' contributions.

APPRAISAL OF PROGRAM

Such an over-all program would be expensive for employers. It would also require considerable sacrifice by employees. And it would still not completely satisfy the goal of "cradle-to-grave security."

It would provide a "minimum subsistence" pension for all. The vesting of the "basic" pension as it is earned from each employer would provide a modest pension based on all earnings from all employers. The "optional" pension would promote thrift and saving on the part of the individual. The nonvesting of the employer's contribution to the optional pension would promote stability within the work force while it would still not be sufficiently attractive to "freeze" workers to their jobs.

It would make possible the payment of past service credit on a sound and yet not burdensome basis. It would give recognition to the employee's contribution to the company's success in making profits, while at the same time not completely depriving him of a pension if the company fails to make a profit.

It would provide a centralized agency or agencies for handling pension funds and thereby solve one of the major problems of pensions for the worker who moves from job to job. It would protect the retired worker from the dangers of unfunded pensions or funded pensions based on faulty actuarial

assumptions. It would relieve the strain on the investment market by providing a new, safe type of investment for the funds that need the greatest degree of protection: the employee's contributions (and by doing this, it may make it possible to take greater risks with the remaining funds). It would provide a "cushion" in the event of a depression by making the employee's contributions and vested rights immediately available in the event of layoff for lack of work.

It would do some other things, too. It would reduce government tax revenues by giving exemption to employees' contributions (but this would be partly offset by taxes on pensions when paid). It would undoubtedly deprive all the insurance companies of most of their pension business. If a single, central Pension Bank were set up, it would take most of the pension business away from the banks and trust companies. It would bring the federal government into the pension picture even more directly than it is at the present time. It would make it necessary to convince employees that a pension doesn't have to be some definite amount that you can determine some 40 years in advance—and that might be the greatest obstacle of all.

Do the advantages of such a program outweigh the disadvantages, or vice versa? Could management and labor really agree on such a program? Would the government make it possible for such a program to be established? Will the economy of the nation be able to support such a program at some future time? Will the political temper of our citizens be favorable to such a program? Or will they think it is too little? Or too much?

Is *this* what's ahead for pensions?

APPENDIX

Appendix 1

COMPARISON OF FORD, BETHLEHEM, AND CIO PLANS*

	Bethlehem Steel Company and United Steelworkers of America (CIO), October, 1949	*Ford Motor Company and United Automobile Workers (CIO), September, 1949*	*CIO (as an employer) and United Office and Professional Workers of America (CIO), December, 1948*
What are the eligibility requirements?	All workers covered by contract eligible. Normal retirement age 65, with 25 years of service. Earlier retirement permitted if "permanently incapacitated" after 15 years of continuous service; retirement is on minimum pension of $50 a month, to age 65. At 65, "disability" pension goes to terms of regular plan ($100 minimum).	All workers covered by contract eligible. "Optionable retirement" at age 65; compulsory at age 68, after 30 years' service. Can retire at 60 with 30 years' service 10 of which are after Mar. 1, 1950; worker gets reduced pension and must have company's consent. If "permanently and totally disabled," can retire at age 55 after 30 years' service; gets flat pension of $50 a month, less any Social Security payments (none under present law).	All workers covered by contract eligible. Normal retirement age 65, with no specified length of service. If worker leaves for any reason before 65, he gets all money set aside for him in pension account. May retire early whether in good health or disabled. Amount of pension for early retirement determined by a committee. No fixed formula for pre-65 benefits.

How much does the worker get when he retires?	$100 a month *minimum* (including Social Security), at age 65 after 25 years' service. After 15 years' service, gets minimum of $60 at age 65 (including Social Security), plus $4 for each year of service over 15. These are all *minimum* figures; worker can get more.	$100 a month *maximum* (including Social Security), at age 65, with 30 years' credited service. Worker with less than 30 years' service at 65 gets less in direct proportion (example: two-thirds for 20 years).	$100 a month *minimum* at age 65 (including Social Security).
Who pays for pensions?	The company pays, except for worker's own share of Social Security tax. Contract doesn't specify how much company pays, but requires company to guarantee enough to make plan financially sound as to workers retired in the past and as to workers retired during agreement. Outsiders estimate cost to be from 9 to 12 cents an hour for each worker.	The company pays, except for worker's own share of Social Security tax. Company agrees to pay up to 8¾ cents an hour for each worker and set up fund that will pay benefits set in agreement. How fund is set up is at company's discretion, as is selection of bank or trust company to be fund's trustee.	CIO pays all, except worker's share of Social Security tax. CIO contributes 6% of worker's salary. Seven-eighths goes into a "special account" in the worker's own name. One-eighth goes into a "contingency account" to make up difference between $100 and Social Security payments where a worker's account isn't enough, or where account funds are used up.

	Bethlehem Steel Company and United Steelworkers of America (CIO), October, 1949	*Ford Motor Company and United Automobile Workers (CIO), September, 1949*	*CIO (as an employer) and United Office and Professional Workers of America (CIO), December, 1948*
Who administers the pension plan?	The company does, through its own pension board. There is also a joint committee—five union and five management members — which is to "keep informed" on how plan works. Grievances and arbitration handled under regular contract clauses. However, arbitrator has no power to modify plan, and is limited in subjects on which he can rule.	A joint board of administration is responsible. Board has three company and three union members. In case of deadlock, an impartial chairman is selected by mutual agreement of board members. Unlike Bethlehem Steel plan, Ford administration board interprets rights of employees and will act on appeals.	Plan administered by joint board: two representatives of union and of CIO (as employer), plus one other member, chosen by the other four. Board of Trustees has broad discretionary powers.
How is the worker's pension figured?	Worker gets 1% of average monthly income for each year of continuous service. Long-service, high-salaried workers get more than minimums set in contract, if pension plus Social Security figures to less than $100 minimum, company making up the difference.	Pension has no relation to worker's earnings. Flat benefit is paid based on length of service at time of retirement. No worker can get more than $100 a month maximum.	Pension is figured as total amount of money (including interest) in worker's pension account, divided by 144. If this amount, plus Social Security, is less than $100 a month, the employer makes up the difference. If pension plus Social Security is more than $100, the worker gets the full amount.

How much does a worker get at age 65, after 30 years of service, average wage $200 a month?	Company computes this way: 1% of $200 is $2; 30 times $2 is $60. Add to this primary Social Security benefit of $39.55, assuming full coverage since law was passed. Company contribution plus Social Security is therefore $99.55. Since company guarantees a minimum of $100, it adds another 45 cents to even pension out. Total company payment is thus $60.45.	Income doesn't matter. If primary Social Security benefits were $39.55, company would pay same as Bethlehem Steel for this long-service man: $60.45. Don't forget, though, that Bethlehem worker can retire after 25 years of service, and that Bethlehem's $100 a month is a *minimum* figure. At Ford, $100 is the *maximum;* shorter-service men get less.	There will be about $5,200 in the worker's pension account: 6% of $2,400 is $144; seven-eighths of this ($126) goes into worker's pension account every year; for 30 years this would be $3,780. Compound interest would add roughly another $1,420, making total $5,200. $5,200 divided by 144 gives pension of about $36 a month. Plus Social Security of roughly $40 a month gives total of $76. But plan guarantees minimum of $100. So employer must pay $24 out of contingency fund each month.
Why it's important	Plan is the "pattern" for almost all of the steel industry. Hailed by CIO's Philip Murray as "great victory." Union agreed the plan will be "frozen" until Oct. 31, 1954. Inland Steel managed to change the pattern. Inland got agreement to keep its existing contributory pension plan, along with a flat $100-a-month plan; employees have *choice* of either plan.	Plan negotiated about a month before the Bethlehem settlement set the pattern for steel. Ford benefits not as liberal as steel, but may be pushed as auto industry pattern. As in steel, Ford plan is "frozen" for 5 years—until March 1, 1955. Until then, Ford will profit by any increase in Social Security benefits because company payments will be proportionately less.	The CIO's own plan for its Washington office workers set the stage for the big pension drive this past year: (1) It gave CIO protection against management charges that the union wasn't practicing what it preached. (2) It gave the union a chance to "try out" its $100-a-month scheme in advance of big 1949 bargaining drive.

APPENDIX 2

COAL MINERS' WELFARE AND RETIREMENT FUND

(Partial Text)

*   *   *

It is agreed by the contracting parties hereto that the Trustees herein provided for shall serve for the duration of this contract and as long thereafter as the proper continuation and administration of said trust shall require.

It is agreed that this Fund is an irrevocable trust created pursuant to Section 302(*c*) of the "Labor-Management Relations Act, 1947," and shall endure as long as the purposes for its creation shall exist. Said purposes shall be to make payments from principal or income or both, of (1) benefits to employees of said Operators, their families and dependents for medical or hospital care, pensions on retirement or death of employees, compensation for injuries or illness resulting from occupational activity or insurance to provide any of the foregoing, or life insurance, disability and sickness insurance or accident insurance; (2) benefits with respect to wage loss not otherwise compensated for at all or adequately by tax supported agencies created by federal or state law; (3) benefits on account of sickness, temporary disability, death or retirement; (4) benefits for any and all other purposes which may be specified, provided for or permitted in Section 302(*c*) of the "Labor-Management Relations Act, 1947," as agreed upon from time to time by the Trustees, including the making of any or all of the foregoing benefits applicable to the individual members of the United Mine Workers of America and their dependents; and (5) benefits for all other related welfare purposes as may be determined by the Trustees

within the scope of the provisions of the aforesaid "Labor-Management Relations Act, 1947." Subject to the stated purposes of this Fund, the Trustees shall have full authority within the terms and provisions of the "Labor-Management Relations Act, 1947," and other applicable law, with respect to questions of coverage and eligibility, priorities among classes of benefits, amounts of benefits, methods of providing or arranging for provisions for benefits, investment of trust funds, and all other related matters.

The aforesaid Trustees shall designate a portion (which may be changed from time to time) of the payments herein provided based upon proper actuarial computations, as a separate fund to be administered by said Trustees herein described and to be used for providing for pensions or annuities for the members of the United Mine Workers of America or their families or dependents and such other persons as may be properly included as beneficiaries thereunder.

* * *

Title to all the moneys paid into said Fund shall be vested in and remain exclusively in the Trustees of the Fund, and it is the intention of the parties hereto that said Fund shall constitute an irrevocable trust and that no benefits or moneys payable from this Fund shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber, or charge the same shall be void. The moneys to be paid into said Fund shall not constitute or be deemed wages due to the individual mine worker, nor shall said moneys in any manner be liable for or subject to the debts, contracts, liabilities or torts of the parties entitled to such money, *i.e.*, the beneficiaries of said Trust under the terms of this Agreement.

* * *

It is stipulated and agreed by the contracting parties hereto that an annual audit of the Fund hereinabove described shall be made by competent authorities to be designated by the Trustees of said Fund. A statement of the results of such audit shall be made avail-

able for inspection of interested persons at the principal office of the Trust Fund and at such other places as may be designated by the Trustees.

* * *

Resolution No. 8, April 12, 1948

Whereas, under the "Labor-Management Relations Act of 1947," Title III, Section 302(*c*)(5)(*C*), and under the terms of the "National Bituminous Coal Wage Agreement of 1947," the Trustees of the "United Mine Workers of America Welfare and Retirement Fund of 1947" shall designate a portion (which may be changed from time to time) of the payments herein provided as a separate fund to be administered by the said Trustees herein described and to be used for providing for pensions or annuities for the members of the United Mine Workers of America or their families or dependents and such other persons as may be properly included as beneficiaries thereunder:

Now, therefore be it resolved, that there be and is hereby designated a separate fund to be used for providing pensions or annuities for the members of the United Mine Workers of America, or their families or dependents and such other persons as may be properly included as beneficiaries thereunder; that there be and there is hereby transferred, set aside and deposited in said Fund, pursuant to said Act and said contract, the sum of Five Million Dollars ($5,000,000) out of payments heretofore made to the "United Mine Workers of America Welfare and Retirement Fund of 1947;" that said Five Million Dollars ($5,000,000) so hereby transferred, set aside and deposited in said Fund shall be incremented from payments already made or hereafter to be made to the "United Mine Workers of America Welfare and Retirement Fund of 1947," from time to time as upon review by the Trustees experience obtained may require; that said Fund shall not be subject to or be charged with, or have any obligations created against it, or be subject to any expenditures or withdrawals of any kind or character by the Trustees other than withdrawals for the payment of pensions or annui-

ties and such withdrawals as may be authorized by said Trustees for the purposes of investment or re-investment necessary or advisable for the conservation and protection of said Fund, or for the purposes of the payment of reasonable administrative expenses, including tax, actuarial and legal studies if, as and when required, and which may hereafter by the Trustees be duly authorized.

Be it further resolved, that a pension of $100 per month shall be paid subject to amendment or modification at any time as experience in the operation of the fund may dictate or require, to each eligible and qualified member of the United Mine Workers of America who on May 29, 1946, attained or thereafter attained the age of 62 years and who has served 20 years in the coal industry in the United States and who has retired from service in the bituminous coal industry in the United States on a date subsequent to May 28, 1946; that the effective date for the payment of pensions shall be as of the date that the member of the United Mine Workers of America has retired from the bituminous coal industry in the United States after attaining the age of 62 years and has served 20 years in the industry; but no member of the United Mine Workers of America shall be eligible or qualified for a pension in accordance with the foregoing who retired from the bituminous coal industry in the United States prior to May 29, 1946.

Be it further resolved, that at the earliest practicable date following the adoption of this resolution there shall be formulated detailed rules and regulations subject to approval by the Trustees, to effectuate the payment of said pensions upon the terms and conditions hereinabove specified and in conformity with reasonable and proper administration of said funds.

APPENDIX 3

OPTIONAL PENSION PLAN*

INLAND STEEL COMPANY AND UNITED STEELWORKERS OF AMERICA-CIO

(Complete Text)

ARTICLE I

DEFINITIONS

Whenever used in this Plan:

(*a*) The word "Board" means the Board of Directors of the Company.

(*b*) The word "employee" means any individual who is employed by Inland Steel Company on a regular, full-time basis, except that it shall not include any employee who is included in any other Plan (other than compulsory Government plans) for the payment of retirement benefits which is not originated by the Company but to which the Company must make payments or contributions for his benefit.

* From the "Supplemental Agreement," dated November 8, 1949: "Any employee who is presently or hereafter a member of the Inland Retirement Income Plan (a contributory plan) may elect to withdraw from said Plan and to come under the Optional Pension Plan, in which event the employee's rights under the Inland Retirement Income Plan shall be as set forth in Section 7 thereof. A withdrawing employee may re-enter the Inland Retirement Income Plan only upon complying with the terms and conditions provided therein. An employee under the Optional Pension Plan may withdraw from said Plan and elect to come under the Inland Retirement Income Plan at any time he is eligible for membership under the terms and conditions thereof."

(*c*) The term "Retirement Income Plan" means the "Retirement Plan for the Employees of Inland Steel Company and Subsidiaries" adopted by the Company on January 1, 1936 and subsequently amended.

(*d*) The term "Past Service Pension Plan" means the "Inland Steel Company Pension Trust" established December 28, 1945.

ARTICLE II

ELIGIBILITY FOR PENSION

1. *Requirements for Eligibility.* Except as provided in paragraph 3 hereof, every employee meeting all the requirements in any of the following two paragraphs shall be entitled to receive a pension upon retirement:

(*a*) In the event that the employee shall have attained age sixty-five (65) while in service, shall have completed fifteen (15) or more years of continuous service, as hereinafter in this Article provided, and shall have ceased active service; or

(*b*) In the event that the employee shall have become totally and permanently disabled on or after January 1, 1950 while in service, shall have completed fifteen (15) years or more of such continuous service and shall satisfy the conditions hereinafter in this Article set forth.

2. *Employees over Age 65.*

(*a*) The Company in its sole discretion may retire any employee at the age of sixty-five (65) or more by reason of his inability to perform efficiently his regularly assigned job.

(*b*) Retirement shall be automatic on the first day of the month following the employee's sixty-eighth (68) birthday.

(*c*) Any eligible employee who shall continue in the service of the Company after age sixty-five (65) pursuant to paragraph (*a*) hereof shall be entitled to receive a pension upon actual retirement.

(*d*) No former employee who has retired from the employ of the Company before the effective date of this Plan shall be eligible to receive pensions hereunder.

3. *Special Exclusion.* Any employee who is otherwise entitled to receive a pension under paragraph 1 hereof but who at the time of such eligibility is included in any other plan (other than compulsory Government plans) for the payment of retirement benefits which is not originated by the Company but to which the Company must make payments or contributions for his benefit shall not be eligible to receive a pension under this Plan.

4. *Continuous Service.* The term "continuous service," as used in this Article, shall mean the last continuous period of employment of the employee by the Company prior to his retirement, as certified by the Company. Such continuity of service shall be considered broken when:

(*a*) An employee quits or is discharged for cause.

(*b*) An employee who has been laid off fails to report for work within a period of fourteen (14) calendar days, after written registered mail notice sent to last address appearing on Company records.

(*c*) An employee is absent from work for a full pay period without notifying the Company, except in the case of an emergency or other justifiable reasons.

(*d*) An employee fails to report for work at the termination of a leave of absence or an extension thereof.

(*e*) An employee is absent for a period exceeding that for which statutory compensation was payable due to an injury on duty, or is absent due to disability for a period exceeding two (2) years, except when, in the opinion of a Medical Director of the Company, this period should be extended.

(*f*) An employee is absent exceeding two (2) years due to layoff.

If continuity of service shall be broken for any of the above reasons, the years of service prior to such break in service shall be disregarded and not counted as years of service.

Where an employee enters military service after one year of continuous service with the Company and returns to active employment within ninety (90) days of honorable discharge from military service, such absence shall not constitute a break in continuous service.

5. *Computation of Credited Years of Service.* An employee shall be credited with service at the rate of one (1) year for each calendar year prior to attainment of age sixty-five (65) in which he actually worked for sixteen hundred (1600) or more hours. If he shall work less than sixteen hundred (1600) hours in any calendar year, he shall receive credit for the hours actually worked during such year, as follows:

(*a*) Three-fourths (¾) of a year for hours worked between twelve hundred (1200) and fifteen hundred ninety-nine (1599) hours.
(*b*) One-half (½) of a year for hours worked between eight hundred (800) and eleven hundred ninety-nine (1199) hours.
(*c*) No credit for hours worked less than eight hundred (800) hours.

Credit shall be given for time spent in military service under the conditions set forth in paragraph 4 hereof where such service is rendered in time of War or pursuant to a national conscription law.

No credit shall be received by an employee for service rendered after attaining age sixty-five (65).

Each full calendar year since last employed prior to 1950 in which an employee rendered service and which is creditable for the purpose of seniority under the Collective Bargaining Agreement shall be credited as a full year of service hereunder.

6. *Total and Permanent Disability.* An employee shall be deemed to be "totally and permanently disabled," as that term is used herein, only (*a*) if he is totally disabled, physically or mentally, or both, through some unavoidable cause so as to be prevented thereby from engaging in any occupation or employment for remuneration or profit, and (*b*) if such total disability shall have continued for a period of six (6) consecutive months and in the opinion of a qualified physician it will be permanent and continuous during the remainder of his life. A disability shall be deemed to have resulted from an unavoidable cause unless it (*a*) was contracted, suffered or incurred while the employee was engaged in or resulted from his having engaged in a criminal enterprise, or (*b*) resulted from his habitual drunkenness or addiction to narcotics, or (*c*) resulted from a self-inflicted injury. If any difference shall arise between the Company and any employee applying for a pension under this Plan as to whether such employee has been totally and permanently disabled, such difference shall be resolved as follows:

The employee shall be examined by a physician who shall have been appointed for the purpose by the Company and by a physician who shall have been appointed for the purpose by the Union. If they shall disagree concerning whether the employee is totally and permanently disabled, that question shall be submitted to a third physician who shall be selected by such two physicians. Such third physician shall be a member of an accredited medical association and a member of the staff of an accredited hospital. The medical opinion of such third physician, after examination of the employee and consultation with such two other physicians, shall decide such question. The fees and expenses of such third physician shall be shared equally by the Company and the Union.

Nothing herein provided shall prevent the Company at any reasonable time from having such disabled employee reexamined by a physician of its choosing. If, after making such examination, the management of the Company shall be of the opinion that such disabled employee is no longer totally and permanently disabled, then the Company shall notify the employee that his disability pension

shall cease. If the employee shall disagree, then he shall be examined by a physician chosen by the Union or his designee. If such physician shall agree with the Company physician that the employee is no longer totally and permanently disabled, then the matter shall be concluded and no further pension for disability shall be paid to such employee. If the physician chosen by the Union shall disagree with the physician chosen by the Company as to whether the employee is totally and permanently disabled, that question shall be submitted to a third physician who shall be selected by such two physicians. Such third physician shall be a member of an accredited medical association and a member of the staff of an accredited hospital. The medical opinion of such third physician, after examination of the employee and consultation with such two other physicians, shall decide such question. The fees and expenses of such third physician shall be paid by the Company.

Article III

Amount of Pension

1. Every eligible employee upon attaining his sixty-fifth (65) birthday and completing twenty-five (25) years of credited continuous service, as computed in paragraph 5 of Article II, shall be entitled to receive upon retirement a pension of One Hundred Dollars ($100.00) a month for his lifetime. This pension, however, shall be reduced by the total amount of the following pension benefits available to such retired employee:

(*a*) The primary (old age) insurance benefits under the Federal Social Security Act as now in effect or as hereafter amended and all other public pensions (defined in paragraph 4 hereof) as now in effect or hereafter amended or as hereafter may be enacted or amended.

(*b*) The pension benefits on the life annuity basis, if any, provided by the Company for such employee in the Inland Steel Company Past Service Pension Plan, established December 28, 1945 and subsequently amended.

(*c*) The pension benefits on the life annuity basis, if any, provided by such employee's vested interest in contributions made by the Company on his behalf to the Inland Retirement Income Plan, adopted January 1, 1936 and subsequently amended, where such employee ceased making contributions to said Plan but did not withdraw his accumulated contributions from the Plan.

2. Every eligible employee upon attaining his sixty-fifth (65) birthday and completing more than fifteen (15) years but less than twenty-five (25) years of continuous service, as computed in paragraph 5 of Article II, shall be entitled to receive a pension equal to the same proportion of One Hundred Dollars ($100.00) as the number of years of such credited continuous service bears to twenty-five (25). This pension, however, shall be reduced by the full amount of the pension benefits made available to such employee from other sources as specified in sub-paragraphs (*a*), (*b*) and (*c*) of paragraph 1 of this Article.

3. Any employee eligible for a pension because of total and permanent disability shall be entitled to a pension of Fifty Dollars ($50.00) a month until he shall attain age sixty-five (65), and thereafter he shall be entitled to the same pension he would have received under paragraphs 1 or 2 hereof if he had retired at sixty-five (65); provided that only the years of continuous credited service before the occurrence of the disability shall be taken into account in determining the amount of his pension. The pension of Fifty Dolars ($50.00) a month provided herein for an employee who is totally and permanently disabled shall be reduced by the following disability benefits, if any, payable to him:

(*a*) The disability benefits, if any, payable to him under the Federal Social Security Act, under any Workmen's Compensation Act and under all other public laws (defined in paragraph 4 hereof) as all of such laws are now in effect or as hereafter amended or as may be hereafter enacted or amended.

(*b*) The disability benefits, if any, payable to such employee under the Company's Past Service Pension Plan.

The pension provided herein for any employees who are totally and permanently disabled shall be subject to the terms and conditions set forth in paragraph 6 of Article II.

4. The reference in paragraph 1 hereof to the reduction of pension benefits by like benefits provided by public laws is intended to include the following: If any employee eligible for a pension shall be, or upon application would be, entitled to any pension, annuity, retirement income or payment of similar kind by reason of any law of the United States of America or of any foreign country or any state, district, territory or sub-division thereof (hereinafter called a "Public Pension"), then the amount of the pension payable under this Plan to such retired employee for any period shall be reduced by the amount of any such public pension payable to him or that would upon application become payable to him for the corresponding period. It is also expressly understood that any future increase in old age or pension benefits payable under the Federal Social Security Act and all other public laws referred to herein shall reduce by the amount of such increase the portion of the pension benefits payable under this Plan.

5. The reference in paragraph 3 hereof to the reduction of disability benefits by like benefits provided by public laws is intended to include the following: If any eligible employee retired because of total and permanent disability shall be, or upon application would be, entitled to disability payments by reason of any law of the United States of America or of any foreign country or of any state, district, territory or sub-division thereof (hereinafter called "Public Disability Benefits"), then the amount of pension payable to such disabled employee under this Plan for any period shall be reduced by the amount of any such public disability benefit payable to him or that would upon application become payable to him for the corresponding period. It is also expressly understood that any future increase in disability benefits payable under the Federal Social Security Act, Workmen's Compensation Act and all other public

laws referred to herein shall reduce by the amount of such increase the portion of the disability benefits payable under this Plan.

6. The pension for any retired employee under paragraphs 1 or 2 hereof shall commence on the first day of the month following his attainment of age sixty-five (65) or his actual retirement, if it shall occur later, and shall end on the first day of the month in which his death occurs, provided, however, payment thereof shall be on the last day of any month for which a pension payment is due. The pension under paragraph 3 hereof shall commence on the first day of the seventh (7) month following the occurrence of such disability, provided, however, payment thereof shall be on the last day of any month for which a pension payment is due. In case of disagreement as to whether such employee is totally and permanently disabled, such pension shall not be paid until a final decision has been rendered pursuant to the provisions of paragraph 6 of Article II; provided, however, that if the final decision is to the effect that the employee was totally and permanently disabled, then such pension shall be paid retroactively from the first day of the seventh (7) month following the occurrence of such disability. The disability payments to such employee shall end on the first day of the month in which his death shall occur.

7. The pension payments to any retired employee shall be terminated in the event he shall at any time enter into any occupation or service or does any act which is in competition with any phase of the Company's business or is detrimental to its business, or in the event such retired employee is convicted of any felony.

Article IV

Vesting and Death Benefits

1. No employee shall have any vested right under this Plan, except as to such rights as accrue to him upon his retirement under the plan.

2. No death benefits are provided in this Plan either (*a*) in case of the employee's death before retirement or (*b*) in case of his death after retirement.

Article V

Guaranteed Benefits

The Company guarantees the benefits hereunder for the term stated in the Supplemental Agreement of which this is a part.

Article VI

Administration of the Plan

1. This Plan shall be administered by the Company, subject, however, to the provisions of Section 2 of this article.

2. If, during the term of the Agreement between the parties dated May 7, 1947, as amended June 30, 1947 and July 20, 1948, and by the Supplemental Agreement of which this Plan is a part, any differences shall arise between the Company and any employee who shall be an applicant for a pension under this Plan, as to

(*a*) The number of years of actual continuous service of such applicant (as the term "continuous service" is used in this Plan) in the employ of the Company; or

(*b*) The age of such applicant; or

(*c*) Whether the applicant, who shall have been determined under paragraph 6 of Article II of this Plan to be totally and permanently disabled and who shall have had at least fifteen years of continuous service in the employ of the Company but shall not have attained the age of 65 years, shall have become so totally and permanently disabled through some unavoidable cause (such a disability shall be deemed to have resulted from an unavoidable cause unless it (*a*) was contracted, suffered, or incurred while the employee was engaged in or resulted from his having engaged in a criminal enterprise, or (*b*) resulted from his habitual drunkenness, or addiction to narcotics, or (*c*) resulted from a self-inflicted injury);

such differences may be taken up as a grievance in accordance with the provisions of Article VIII of the Agreement above referred to beginning at Step 3 thereof. If any such grievances shall be appealed to an arbitrator in accordance with the provisions of said Grievance Procedure then such arbitrator, in so far as it shall be necessary to the determination of such grievance, shall have authority only to interpret and apply the provisions of this Plan; it being expressly understood that such arbitrator shall not have authority to add to, detract from, or alter in any way the provisions of this Plan. The decision of the arbitrator on any such grievance which shall properly have been referred to him shall be binding on the Company, the Union and the employee. The provisions of this Plan shall be subject to the Grievance Procedure above referred to only to the extent expressly provided in this Section 2.

ARTICLE VII

CONTRIBUTIONS

1. The employee shall not be required to contribute to this Plan.
2. The Company shall make contributions to the Plan in such amounts and at such times as its Board of Directors shall from time to time determine.

ARTICLE VIII

ASSIGNMENT PROHIBITED

No employee under this Plan shall have power to transfer, assign, mortgage or otherwise encumber any interest he may have in this Plan, or to anticipate in any manner, by assignment or otherwise, the payment of any pension or disability benefit herein provided to be made; nor shall the interest of such employee in this Plan or in any Plan or disability benefit provided for him hereunder be subject to seizure for the payment of any debts, judgments or any obligations of any kind owed by such employee or be transfer-

able by operation of law in the event of bankruptcy, insolvency, or otherwise.

ARTICLE IX

NO CONTRACT BETWEEN COMPANY AND INDIVIDUAL EMPLOYEES

This Plan is strictly voluntary on the part of the Company and shall not be deemed to constitute a contract between the Company and any employee or to be a consideration or inducement for or condition of the employment of any employee. Nothing contained in this Plan shall be deemed to give any employee the right to be retained in the service of the Company or to interfere with the Company's right to discharge any employee at any time.

ARTICLE X

AMENDMENT AND TERMINATION

The Board of Directors of the Company shall have the right to modify or change or terminate this Plan at any time after December 31, 1951 as provided in the Supplemental Agreement of which this is a part.

ARTICLE XI

EFFECTIVE DATE

1. This Plan shall take effect as of January 1, 1950; provided, however, that if approval of the Plan by the stockholders of the Company shall not have been obtained by that date, then the effective date of the Plan shall be the first day of the month following such approval, and provided further that if approval by the stockholders shall not be obtained by March 1, 1950, this Plan shall not go into effect.

APPENDIX 4

FORD RETIREMENT PLAN*

FORD MOTOR COMPANY AND UNITED AUTOMOBILE WORKERS OF AMERICA—CIO

(Complete Text)

SECTION 1. The Retirement Plan shall be non-contributory, financed completely by the Company.

SECTION 2. For the duration of the pension agreement beginning March 1, 1950, the Company agrees to pay into a pension fund 8¾ cents for every hour for which an hourly rated employee covered by the contract receives compensation, for the purpose of providing the benefits set forth herein. Since the Company assumes the responsibility to make contributions from time to time to the pension fund in an amount sufficient, based upon estimates made by a duly qualified actuary, to provide the monthly benefits specified in Section 5 taking into consideration as therein provided primary (old age) insurance benefits under the Federal Social Security Act (as now in effect or as hereafter amended) it may vary these payments accordingly. Past service benefits shall be funded in such manner as the Company in its sole discretion shall determine.

SECTION 3. The benefit structure of the Retirement Plan shall be administered within the framework of the Pension Agreement by a Joint Board of Administration, having three members each from the Company and the Union. Suitable provisions shall be made for the breaking of any deadlocks by an impartial chairman selected by

* Negotiated with the UAW-CIO, September 28, 1949.

mutual agreement by the Company and Union representatives on the Board.

SECTION 4. The Board of Administration shall be empowered to administer the Plan as it relates to development of administrative policy and procedure, for such functions as:

A. Verifying and establishment of service credits;
B. Methods of handling and paying claims and benefits;
C. Interpretation of the rights of employees under the Plan;
D. Reviewing and acting on appeals;
E. Collection and analysis of administrative statistics;
F. Authorization to the Bank or Trust Company acting as Trustee for the Pension Fund, for proper payments from the Pension Fund; and
G. Similar and related functions and duties that are inherent in proper administration of benefits and operation of the Plan.

Decisions of the Board of Administration shall be by majority vote with the impartial chairman empowered to cast the deciding vote in case of a tie. Decisions of the Board shall be final and binding.

SECTION 5. (*a*) There shall be payable, on retirement at normal retirement, age 65, or older, with 30 years or more of credited service, a benefit of $100 a month including primary (old age) insurance benefits under the Federal Social Security Act (as now in effect or as hereafter amended) payable to the employee, or at age 65, or older, with less than 30 years of credited service, a pension equal to the same proportion of $100 as the number of years of credited service bears to 30, including primary Federal Social Security Benefits as before.

(*b*) There shall be payable on retirement after age 60, but before age 65 and after 30 years of credited service, including 10 years' credited service after the effective date of the Plan, a benefit reduced to equate for all factors so as not to increase the cost of the plan or impair the benefits payable under other sections.

(*c*) Benefits payable under Social Security shall be deducted

from the pension benefit payable after retirement under the Plan whether or not such Social Security payment is lost by the individual through acceptance of covered employment or otherwise.

SECTION 6. *Disability Retirement*—Retirement for total and permanent disability after 30 years of credited service at age 55 or older shall be at a flat retirement benefit of $50 a month less any Federal Social Security benefit receivable by the employee for disability.

SECTION 7. Any future increase in the old age benefits payable under the Federal Social Security Act shall reduce by the amount of such increase the portion of the benefit payable under this Plan.

SECTION 8. *Crediting of Service*—(*a*) "Past Service" shall be credited at the rate of one year [for each year] of seniority as defined in the Collective Bargaining Agreement, excluding seniority credited for military service prior to employment by the Company, provided, however, that there shall be added thereto a year of past service for each year by which the total years of accumulated active service prior to June 20, 1941, exceed by more than five years total seniority for that period.

(*b*) "Future Service" shall be credited at the rate of one year for each calendar year prior to attainment of age 65 in which the employee receives pay for 1,800 or more hours, ¾ of a year for 1,300 to and including 1,799 hours, ½ of a year for 750 to and including 1,299 hours, with no credit for less than 750 hours in a calendar year.

SECTION 9. *Retirement Age*—The normal retirement age shall be 65. Retirement shall be automatic at age 68 but there shall be no increase in benefits after age 65. An employee may retire early with the consent of the Company between age 60 and 65, provided he has at least 30 years of credited service.

Retirement upon total and permanent disability is permitted between ages 55 and 65 provided the employee has at least 30 years of credited service.

The Company at its sole discretion may retire any employee at age 65 or older by reason of employee's inability to perform efficiently work assigned to him.

Employees age 67 or more as of July 16, 1949, shall be automatically retired on the date of their first birthday following January 1, 1951. No employee shall be subject to automatic retirement prior to April 1, 1952, if, at the time he reaches normal retirement age, he has more than ten years of service and would receive a pension (including Social Security) of less than $75.00 a month.

This problem will be reviewed by the parties 30 days in advance of April 1, 1952.

SECTION 10. *Effective Date*—(*a*) The liability of the Company for payments to the "pension trust fund" as specified herein shall accrue beginning on March 1, 1950, which shall be the "effective date" of the program;

(*b*) Benefit payments shall commence on April 1, 1950. Employees who retire during March, 1950, or who are to be considered retired under sub-paragraph (*c*) below, shall commence to receive benefits on April 1, 1950, if living.

(*c*) Employees whose employment by the Company terminated on or after July 16, 1949, but before the effective date of the program, who would have qualified for benefits under the program had it been in effect at the time of such termination of employment, shall be treated as having retired.

SECTION 11. *Vesting*—No employee shall have any vested right under the program except as to such rights as accrue to him in connection with retirement as provided for under the program.

SECTION 12. The Company shall have the sole right to select and contract with a qualified Bank or Trust Company to act as the Trustee of the Pension Fund. Such Trustee shall hold, and be solely responsible for, the investment of the Pension Fund. Benefits shall be payable only from the Trust Fund; and the Trustee shall make such benefit payments from the Pension Trust Fund as are specifically authorized by the Board of Administration.

SECTION 13. *Approval of Plan*—All of the foregoing shall be subject to the approval by the Commissioner of Internal Revenue as a qualified pension trust under Section 165 of the Internal Revenue Code, and in the event that any revision of the foregoing is necessary to meet the requirements for qualification, the Board, but only upon

consent of the parties to this Agreement, is authorized to make such necessary revisions, adhering as closely as possible to the intent of the parties hereto as expressed in this pension agreement.

SECTION 14. The pension agreement shall continue in effect for a period of five years from March 1, 1950. Either party may request renegotiation of the provisions of the pension agreement upon sixty-day written notice to the other party in advance of March 1, 1955.

During the period of five years from March 1, 1950, neither the Company nor the Union shall demand any change in this pension agreement nor shall either party be required to bargain with respect to this pension agreement, nor shall a change in or addition to any feature in this pension agreement be an objective of or be stated as reason for any strike or lockout or other exercise of economic force or threat thereof by the Union or the Company.

SECTION 15. The Company shall not be obligated to make additional payments to the Fund to make up deficiencies in any year arising from depreciation in the value of the securities in the Fund resulting from abnormal conditions.

SECTION 16. It is understood that the foregoing is intended to set forth the principal provisions of the Pension Plan. The Company and the Union, within two weeks following ratification hereof, shall each appoint a committee of three who shall draw up an agreement which shall incorporate and implement in sufficient detail, the framework established by the foregoing provisions.

Appendix 5

UAW-CIO BASIC MINIMUM STANDARDS FOR SUPPLEMENTARY SECURITY PROGRAMS

All new contracts relating to pensions and other supplementary security benefits must meet the standards outlined by the Executive Board and must be cleared with the Regional Director or Department Head before they are approved.

I—Program for Old-age Protection

1. Pensions must be financed entirely by the employer.

2. Benefits:

a. $100 minimum monthly pensions at age 60 for employees with 25 years of service.

b. Graduated monthly pensions at age 60 for employees with less than 25 years of service.

3. Provisions must be made for protecting the rights of workers in case of death or permanent severance from the payroll prior to retirement age.

4. The collective bargaining contract must contain specific provision for:

a. Establishment of a Trust Fund into which employer payments are made with provision that all such monies can be spent only for pensions and related benefits.

b. Establishment of a Board of Trustees on which the Union has equal representation with Management. This Board of Trustees to be responsible for the setting up and operation of the pension program.

5. All workers under the collective bargaining contract must be covered by the pension programs.

In the pension program we are asking for a set of benefits; it will depend on the particular conditions in the plant what these benefits will cost.

II—Programs for Disability, Hospitalization, Medical Care, and Death Protection

1. Program must be financed entirely by the employer.

2. All workers in the bargaining unit must be covered by the program.

3. The collective bargaining contract must provide for:

a. Employer payments on the basis of 5 percent of payroll for all workers under the contract.

b. Establishment of a Trust Fund into which employer payments are made. These monies to be used only for disability, hospitalization, medical care, death and related benefits.

c. Establishment of a Board of Trustees on which the Union has equal representation with Management. This Board of Trustees to be given authority and responsibility for working out the schedule of benefits, for making arrangements for provision of benefits, and for operation of the program.

In Part Two the demand is for a specified amount of money; it will depend on the particular circumstances for each situation what benefits can be made available.

What We Do Not Want

1. Company operated or sponsored plans developed outside of collective bargaining.

2. Plans which require employee contributions or payroll deductions.

Steps in Bargaining for Pensions

Step I—Presentation of UAW-CIO Demand

The pension demand, together with the other Supplementary Security Program demands, should be presented to the employer at

the earliest opportunity following the opening of negotiations. The demand should be presented in writing as follows:

"We demand a pension program financed entirely by payments from the (name of the company) to provide benefits as follows:

1. $100 minimum monthly pensions at age 60 for employees with 25 years of service.

2. Graduated monthly pensions at age 60 for employees with less than 25 years of service.

The pension program must make provisions for the protection of rights of workers in case of death or permanent severance from the payroll prior to retirement age.

The collective bargaining contract must contain specific provision for:

1. Establishment of a Trust Fund into which employer payments are made with provision that all such monies can be spent only for pensions and related supplementary security benefits.

2. Establishment of a Board of Trustees on which the Union has equal representation with Management. This Board of Trustees to be responsible for the setting up and operation of the pension program.

The pension program must cover all employees under the collective bargaining contract."

STEP II—DISCUSSION OF DEMANDS

A. Expand the following points:

1. Workers' need for protection when "too old to work but too young to die."

2. Workers' retirement is legitimate responsibility of industry.

3. Legal basis of bargaining for pensions is the same as for wages, hours, and conditions of employment.

4. Workers cannot provide for their old age from current earnings.

5. Benefits from Federal Old-age Insurance program are inadequate.

B. Present detailed reasons to support each point in the UAW-CIO demands:

1. Present reasons why minimum pension of $100 monthly after 25 years service is necessary and justified.

2. Present reasons why retirement age should be 60 years.

3. Present reasons why a worker at age 60 with less than 25 years service is entitled to a monthly pension of an amount depending on how many years service he has put in.

4. Present reasons why the rights of workers must be protected in event they do not live to retirement age or if they leave or are fired from their job with the company.

5. Present reasons why the employers' payments must be placed in a Trust Fund:

a. Gives legal assurance to workers, employer and public that money will be used only for purpose intended.

6. Present reasons for the Board of Trustees:

a. Very careful study is required to work out all the details of a program. These details, although complicated, will vitally affect the lives of many workers and families and deserve the most careful consideration.

b. Board of Trustees becomes a working group who can study the problems and the possible alternatives with the help of such technical personnel as they feel it is necessary to obtain. (UAW-CIO Social Security Department technical services will be available to Boards of Trustees.)

c. Both Management and the Union gain by having the collective bargaining contract delegate full authority and responsibility to a Board of Trustees for the planning, the setting up and the administration of the program—because a better program results.

d. The interest of both parties on the Board of Trustees is protected by having equal representation from Union and Management on the Board of Trustees.

e. The Board of Trustees with technical assistance will be able to develop a more efficient and effective program. Placing continuing authority and responsibility on Board of Trustees assures that program will be flexible in meeting changing situations. Adjustments can be made in the program as governmental programs develop or to meet unforeseen developments. Periodic review by the

Board of Trustees of all aspects of program in operation will enable continual improvement of program based on actual experience.

f. The authority of the Board of Trustees over the administration of the program protects both sides from possibility of abuses. Workers are assured that threats of loss of benefits cannot possibly be used as a whip over their heads.

7. Present reasons why program should cover all workers in bargaining unit.

a. Program must cover all to meet the problem and produce satisfactory results in the long run.

b. Permits lower cost of benefits and more efficient administration.

c. Maximizes all the advantages to the employer of having a retirement plan in his organization.

8. Present reasons why the program must be financed entirely by employer payments.

a. All workers in the group can be covered.

b. Employer can deduct about 40% of his payments to the Trust Fund from his Income Tax.

c. Employees save on their income tax, too, because no withholding tax is deducted on account of money set aside for their benefit. When workers pay for benefits through payroll checkoff the money for benefits is subject to withholding tax. By direct employer payments to the Trust Fund for benefit purposes, almost 20% more benefits can be had because of this one factor.

d. Employer payment to a Trust Fund for benefit purposes, when required by the collective bargaining agreement, is not a gift from management. It is indirect payment for services rendered and the program is condition of employment.

C. Defend UAW-CIO basic minimum standards as contained in demands—don't compromise.

D. Don't discuss cost unless the employer presents figures on the cost of a plan which meets UAW-CIO basic minimum standards.

NOTE: The employer will need considerable time to develop a plan which meets UAW-CIO standards and to work out cost figures.

STEP III—PRESENTATION OF DEMAND FOR BASIC INFORMATION

A. If after a reasonable time the employer fails to submit a proposal, the negotiating committee should present a second written demand along the following lines:

"In order to facilitate negotiations and to expedite settlement of this issue we demand that the following information which is essential to objective consideration of this subject be made available by the (name of company) to this negotiating committee:

1. A list of all employees covered by the collective bargaining contract giving:

   a. Name
   b. Sex
   c. Birthdate
   d. Months of service with the company

2. The amount of the TOTAL payroll for the 12 months preceding presentation of the demand for all workers under the collective bargaining contract."

STEP IV—WHAT TO DO WHEN THE EMPLOYER SUBMITS A PENSION PLAN PROPOSAL

A. Offers from employers may be expected in the near future; some of them may have been made by the time this outline is received. When such offers are received in negotiations the following steps should be taken:

1. Determine whether or not the proposed plan meets UAW-CIO basic minimum standards by using the following Check List provided for this purpose.

CHECK LIST FOR EMPLOYER'S PENSION PLAN PROPOSAL

a. PENSION BENEFITS:

YES—NO—Does the proposed plan provide for pensions of at least $100 a month starting at retirement age for all workers who have been with the employer for 25 years or more?

YES—NO—Would the proposed plan provide graded pensions to workers at retirement age who have less than 25 years of service?

b. RETIREMENT AGE:

YES—NO—Does the proposed plan provide pensions at age 60?

c. ELIGIBILITY:

YES—NO—Does the proposed plan cover all workers in the bargaining unit?

d. PROTECTION OF WORKER'S RIGHTS:

YES—NO—Are rights of workers under the proposed plan protected in the event of death?

YES—NO—Would the proposed plan safeguard workers' rights in the event of permanent severance from the payroll?

e. FINANCING:

YES—NO—Is the proposed plan entirely financed by employer payments?

YES—NO—Are employer payments required to be deposited in a trust fund which can be used only for pensions and related benefits?

f. ADMINISTRATION:

YES—NO—Under the proposed plan would the Union be assured representation with Management on the Board administering the Trust Fund?

2. Demand adjustment of the proposal in all the respects it falls short of UAW-CIO standards.

3. Demand that the company furnish the basic facts necessary to determine that the amount of employer payment will be adequate to maintain a financially sound pension program which will assure payment of promised benefits.

4. Submit the plan and all available basic data to your Regional Director or Department Head for examination and clearance. This is necessary to comply with UAW-CIO policy and to obtain assistance in proceeding with negotiations.

NOTE: Individual employers have the financial resources to hire experienced consultants. IT IS, THEREFORE, VERY IMPORTANT THAT ALL PENSION PROPOSALS WHICH ARE SUBMITTED BY THE EMPLOYER IN NEGOTIATIONS BE CLEARED BY THE REGIONAL DIRECTOR OR DEPARTMENT HEAD. THIS WILL PROTECT THE INDIVIDUAL WORKERS AND THE UNION AS A WHOLE.

DON'T MISS THESE POINTS

1. The cost of plans will vary between groups because of the differences in workers' ages, sex and seniority. (Until the employer makes available to the negotiating committee the information demanded in Step III above, the cost of the pension program cannot be figured.) UAW-CIO basic minimum standards, however, apply to all situations alike and the "CHECK LIST" for determining whether pension proposals meet UAW-CIO standards should be used without modification by all negotiating committees.

2. Some smaller employers may be unwilling to meet the cost of UAW-CIO basic minimum standards for pension benefits until settlements are reached with larger employers and the details of a pattern for the industry are thus developed. Any move, however, toward compromising these basic standards on the part of any Local Union will jeopardize the interests of the rest of the UAW-CIO membership. VIGOROUS AS OUR ACTION MUST BE, IT WILL ALSO HAVE TO BE EXTREMELY CAUTIOUS. Compromise settlements made in smaller cases could not fail to have their repercussions on the Union's bargaining position in relation to the large employers. Employers are well aware of this and every effort will be made to break through the Union's solid front by presenting a plan of their own at an early date.

3. Right now employers are mobilizing experts, technicians, and insurance salesmen, in pension planning, group insurance and related benefits. Many employers will be well prepared for negotia-

tions on pensions and other benefits—prepared to make the least costly concessions with the best looking outside appearance.

4. It is important to safeguard workers' pension rights which have accrued under existing plans. In such situations our demand should be to modify the existing plan so that it conforms with our basic minimum standards. Any assets which have accumulated under the existing plan should be carried over into the new plan to be negotiated this year, and any credits which have been established in the name of individual workers should remain credited to their names.

Bargaining for Workers' Security Programs Providing Death and Disability Benefits, Hospital and Medical Care and Other Related Benefits Presenting the UAW-CIO Demand

The demand for an employer-financed program for the above purposes should be presented, together with the pension demand, at the earliest opportunity following the opening of negotiations. It is preferable that the demand be presented in writing somewhat as follows:

"We demand the establishment of a program to provide protection to workers and their families against the hazards of disability and death of the worker and to provide hospital and medical care to workers and their families.

The program must cover all employees under the collective bargaining contract and must be financed entirely by payments made by the (name of company).

The collective bargaining contract must provide for:

1. Payments by the company on the basis of 5% of average payroll for all workers under the collective bargaining contract.

2. Establishment of a Trust Fund into which above employer payments are made. These monies to be used only for disability, hospitalization, medical care, death and related benefits.

3. Establishment of a Board of Trustees on which the Union has equal representation with Management. This Board of Trustees to be given authority and responsibility for working out the sched-

ule of benefits, for making arrangements for provision of benefits, and for operation of the program."

The UAW-CIO demand means that the Union and the Company reach agreement in the contract on the amount of the employer payments and on the general purposes for which the money is to be used. The job of working out the complex method of providing benefits is to be delegated by the collective bargaining contract to a Board of Trustees.

THE BOARD OF TRUSTEES, WITH EQUAL REPRESENTATION FOR THE UNION, IS AN ESSENTIAL AND VITAL PART OF THE UAW-CIO DEMANDS. The Board of Trustees is the means of assuring that workers get and continue to have equal voice and participation in all phases of the Supplementary Security Program.

What to Do about Existing Group Insurance Plans

Any move toward compromising the UAW-CIO basic position on the part of any Local Union will jeopardize the interest of the rest of the UAW-CIO membership. Existing "company plans" are to be replaced by the Supplementary Security Program financed by employer payments obtained through collective bargaining and administered by a Board of Trustees—on which the Union has equal voice with Management. During the period of changeover all insurance protection of all workers should continue in force.

What to Do about Offers on Workers' Security Programs

1. EMPLOYERS' OFFERS MADE PRIOR TO NEGOTIATIONS—UAW-CIO policy requires that Local Unions make no agreements or give approval to changes in company or employer group insurance plans outside or prior to negotiations. UAW-CIO policy requires this subject matter to be covered as a part of the collective bargaining contract and in accordance with UAW-CIO basic minimum standards.

2. EMPLOYERS' OFFERS MADE DURING NEGOTIATIONS—When offers are received in negotiations the negotiating committee should take the following steps:

a. Determine whether or not the proposed plan meets the UAW-CIO basic minimum standards by using the "CHECK LIST" provided for this purpose. (Check List appears below.)

b. Demand adjustment of the employer's proposal in all respects it falls short of UAW-CIO standards.

c. Submit the employer's proposal to Regional Director or Department Head for examination and clearance.

CHECK LIST

(For use in determining whether employers' proposals meet UAW-CIO basic minimum standards for programs providing disability, death, hospitalization and medical benefits.)

1. FINANCING:

YES—NO—Does the employer agree to pay 5% of average payroll for all workers in the bargaining unit to finance a program to provide disability, death, hospitalization, medical and related benefits?

YES—NO—Would the period for which the employer makes payments begin on the effective date of the collective bargaining contract?

YES—NO—Under the employer's proposal would the money he pays be placed in a Trust Fund?

2. ADMINISTRATION:

YES—NO—Would the employer's proposal guarantee the Union equal representation with Management on the Board of Trustees charged with the administration of the Trust Fund?

CONCLUSIONS

1. PENSION AND SUPPLEMENTARY SECURITY DEMANDS MUST BE RAISED WHENEVER contract negotiations begin or a contract clause permits the opening of wage negotiations.

2. PENSION NEGOTIATIONS will require time. Their pace will be set by negotiations with the large employers. There is enough mate-

rial in the initial demands, the demands for statistical information, and the discussion of employers' proposals to keep negotiations going. They should be concluded only when the outcome of negotiations with the largest companies has shown the precise goals to be attained this year.

3. NEGOTIATIONS FOR THE SUPPLEMENTARY SECURITY BENEFITS OTHER THAN PENSIONS can be concluded much earlier, since the primary demand is one of 5% of payroll, and what can be done best with the money depends largely on the conditions prevailing in the individual plant. (The contract must, however, be left open until the UAW-CIO pattern on the details of the pension benefit has been established.)

4. The Trust Fund and the Board of Trustee plan of administration have top priority among demands under both parts of the total program. After agreement is obtained on employer payments, the employer should be required to establish an escrow account and to start paying into this account at once, so that funds are available to the Board of Trustees when they can begin operations as a Board.

APPENDIX 6

REPORT OF THE STEEL INDUSTRY BOARD*

FINDINGS, CONCLUSIONS, AND PROPOSALS AS TO PENSIONS

PART I

C.3. Findings and Conclusions on Pensions

(*a*) The subject of pensions is not bargainable at this time under the terms of the reopening clause providing for the right in either party in 1949 to negotiate for a general and uniform change in rates of pay and/or for described social insurance.

(*b*) However, the subject of pensions is bargainable under the law as interpreted by the National Labor Relations Board as to all the companies. Pensions are not included in the written agreement and "with respect to unwritten terms dealing with 'wages, hours and other terms and conditions of employment,' the obligation remains on both parties to bargain continuously."

(*c*) Such pension plans as are now in effect in the basic steel industry were the result of unilateral action by employers and are generally inadequate even as a minimum supplement to the amounts payable as old-age pensions under the Social Security Act, when compared with recognized minimum requirements of elderly individuals or couples.

(*d*) The level of pensions requested by the union in this case, however, is higher than that prevailing or agreed on where such plans are in effect.

(*e*) It is recommended as fair and equitable under all the cir-

* Excerpts from the "Report to the President of the United States on the Labor Dispute in the Basic Steel Industry" by the Steel Industry Board appointed by the President July 15, 1949. Submitted September 10, 1949.

cumstances that pension plans be established in this industry, with the cost to be borne by the employers without contribution from the employees. The details of such plans should be determined through collective bargaining between each company and the union.

(1) Pensions should be limited in net cost to a maximum of about $120 per employee per year, or 6 cents per hour on a basis of a 2,000-hour work-year. Based on the union's cost estimates, this will provide, when added to average Social Security old-age benefits, about $100 per month on retirement at age 65 of the average employee.

(2) The recommended net cost is meant to be the total cost, not a cost in addition to what any company is now incurring under its own pension plan for employees within the bargaining unit. Therefore any plan agreed upon between a company and the union should not be in addition to any existing plan which the company may already have, but in substitution therefor.

(3) Since the problems involved in a pension program are more complicated than those faced in social insurance programs, and because the costs are greater and the program less susceptible to change from year to year, it is recommended that a joint study in the industry should be made on pensions. Such a study is necessary before intelligent bargaining over a pension program can be concluded.

(4) Among the matters which will have to be resolved in collective bargaining are these: Should the plan be handled through an insurance company or through a trust fund and how may the parties participate in the supervision; how shall the accrued liability for past service be treated; shall there be provision for employees retired through permanent disability below the age of 65; what shall be the minimum length of service to be eligible for pensions; shall the payments be proportioned to length of service or amount of income, or shall the pensions be at a flat amount; shall withdrawing employees have any rights if they leave the company's employ before they are 65; shall retirement of 65 be compulsory or shall there be some means provided for making exceptions,

whether by mutual agreement of the employer and employee, or otherwise; and, having agreed on other principles and details, how large should the benefits be in light of the maximum cost stipulated?

PART V

I.2. Proposals as to Pensions

Except in the case of the Inland Steel Company there has been no discussion whatsoever between the parties on the merits of the pension proposals of the union. The subject is a complicated one involving long-term commitments. On several of its phases strong differences of opinion as to the type of approach to be made will be likely.

Some evidence was offered on all such questions but the estimates and opinions were inconclusive because different assumptions and facts were used. In face of estimates of cost for the benefits requested by the union, which ranged from 11.27 cents per hour (for a 2,000-hour year) to four times as much, this Board is convinced that the several parties must have used different assumptions and the Board is scarcely in a position after this concentrated hearing to say with particularity whose version is accurate or precisely what should be done.

In April 1947, the union and the United States Steel Corporation agreed to discuss the establishment of a new plan involving life, accident, health, medical, and hospital insurance. As the first step in that discussion they set up a joint fact-finding committee to study the subject. This committee was given 6 months in which to complete its study and report; a comprehensive and highly informative report resulted.

It seems to us that a similar study on pensions and retirement plans is even more necessary than was that on insurance. The subject is much more involved, the basic principles much less defined, and the commitments are much more serious in both time and money. An insurance program runs from year to year, but a pension plan approaches permanency. We believe that it would be

highly inadvisable and unrealistic to bargain seriously over a pension plan without first having a thorough study jointly made. Intelligent and constructive bargaining over its terms and conditions would be materially enhanced by such a study. We believe such a study is the intelligent preliminary to working out a sound pension program. We realize that the employees are impatient and would like to avoid further delay but we know of no other reliable approach. To avoid undue delay we are recommending that the study be undertaken at once and pressed to a conclusion as promptly as possible. Since all parties agree that pensions will be bargainable at the time the present contracts expire in April 1950, it is hoped that the study will be concluded at least 60 days before that time, in order to give the parties a full chance to bargain.

A few guideposts are recommended. While the level of benefits may be changed by agreement of the parties from time to time, the basic features must be fixed at the outset. For the reasons already mentioned, the plan should be noncontributory. We believe that the retirement benefits recommended herein should be added to amounts available under title II of the Social Security Law.

The questions as to whether the payments should be a uniform, flat one or should vary with the years of service and the rate of earnings, and whether there should be a minimum number of years to qualify for a pension, and what that minimum should be —all these questions should, we recommend, be left to collective bargaining after a full study has been made of all these factors.

The level of benefits urged by the union is high, higher in fact than any established plan on which we received any information. It is clear, even on the union's lower estimate of costs, that the expense involved is more than should be imposed on this industry at this time, particularly since we are also recommending a social insurance program to be paid for by the employers. The union's calculations show the cost to be 11.27 cents per hour. The companies made a variety of estimates, all much above the union's. While most of the company estimates were presented to the Board without detailed supporting data, they succeeded in raising doubts. It is the Board's recommendation that at the outset the cost be

limited to $120 per year per employee or 6 cents per hour for a 2,000-hour year, and that the parties undertake to buy as much in pension benefits as this figure will cover.

On the basis of the union's estimate, if the parties finally agree, *e. g.*, on a flat sum for all workers, we estimate that 6 cents per hour on a 2,000-hour year would bring about $70 per month, which when added to the average amount now payable under the Social Security Act will provide somewhat more than $100 per month on retirement. If the joint study develops that the cost is somewhat more or somewhat less, the amount of the pension can be adjusted accordingly. If any of the other features sought by the union are dropped or modified, this will also have its effect on the amount of the pensions. All this must be left to such agreements as will be reached after the study and the discussions which the parties will thereafter have.

The maximum cost recommended will be less for companies which already have pensions. As with social insurance, it is not our purpose to have the pension benefits we recommend added to those now in effect, but to replace them with the new plan except in any case in which the benefits at present are more desirable. The cost of existing pension plans will therefore represent an offset against the cost we recommend for such companies as have plans, and the net or average cost will be somewhat less than the full amount indicated.

APPENDIX 7

TABLES FOR APPROXIMATING PENSION COSTS—INSURED PLANS

EXPLANATION OF TABLES

Tables 1 and 2. Group annuity costs for males and females. These tables are arranged for use primarily with unit benefit plans (plans in which retirement income is a percentage of each year's income). Costs are expressed as annual premium for each $100 of monthly payroll of covered employees in each age group, and as a percentage of payroll. The resulting monthly pension will be the indicated percentage times average monthly income times years of service. The tables can be used to determine group annuity costs for other benefit formulas: The monthly retirement income indicated by the "1 per cent" formula is, of course, $1 per month. The premiums shown for the "1 per cent" formula are the premiums for $1 of monthly income beginning at age 65 *regardless of the formula by which it is determined.* (The "percentage of payroll" figures apply *only* to the "per cent" formulas.) It should be noted that only one premium (a single sum) is paid for this type of annuity. Additional units are purchased as required, and the premiums for such units are determined by the attained age of the employee when the unit is purchased. A pension cost determined by these tables will be an estimate of *first-year* cost. The cost in later years will be lower (if the average age of the work force remains the same) because of the operation of two factors: Premiums quoted are for participating policies, so dividends can be expected on the basis of experience; withdrawals are not discounted in advance, so recovery of premiums on policies canceled due to separations will reduce net cost in later years (except to the extent that employees are given a vested interest).

Tables 3 and 4. Group annuity costs for males and females. These tables are arranged primarily for use with flat benefit plans, or for use in computing the cost of past service benefits provided through group annuities. In either case, the table is built on the assumption that the units of retirement income will be purchased in uniform annual installments. Note that only the annuity purchased is uniform; the premiums get larger each year. Therefore, it is necessary to know not only the employee's age when the installment is pur-

chased, but the employee's age when the *first* installment was purchased (the latter determines the number of units to be purchased each year). Premiums shown are based on the purchase of $100 a month of retirement income in equal annual installments to retirement. Thus, if an employee has 20 years to retirement, $5 of retirement income will be purchased each year; 10 years, $10; and so forth. If the monthly pension at retirement is to be something other than $100, it is necessary only to multiply the premium by the ratio of the pension to be paid to $100 (0.60 for $60, etc.). Cost of past service credit (regardless of formula by which it is computed) is equally simple if you keep in mind that with group annuities, all past service credit must be paid for by retirement age. Assume you want to pay for past service credit over 20 years. For workers over 45, compute average monthly retirement income attributable to past service, and multiply the premium for the attained age by the ratio of total pension for the age group to $100. For workers who will not reach retirement until after the payment period is completed: Compute total retirement income attributable to past service. Divide by the number of years in the payment period (in this case, 20). Divide again by the amount of the annual installment that would be purchased to retirement for $100 a month ($4, for age 40). Multiply by the premium shown for successive attained ages for the duration of the payment period only.

Table 5. Individual annuity premiums. Rates shown are level annual premiums, to be paid each year from date the policy is written to age 65. It should be noted that some companies will not write individual annuities unless accompanied by a "reasonable" amount of insurance, usually $1,000 for each $10 of monthly retirement income. This is generally accomplished by a combination policy, for which a single level annual premium is paid. It should be noted that minor features of policies differ from one company to another, and that rates vary accordingly. Those shown may be regarded only as "typical" of rates for participating policies (ones on which dividends are paid). The level annual nature of the premiums means that each employee's pension cost is determined on a "straight-line-to-retirement" basis.

Special Note on Tables 1 through 5. Because annuities must be fully paid for by retirement, more than 10 per cent of the past service cost of some individuals may be paid in a given year. Under the present interpretation of the Bureau of Internal Revenue, you could not take a tax deduction of the entire premium for past service in the year paid for some individuals—you would have to spread the deduction over 10 years. This position has been overruled by the Circuit Court of Appeals. The Bureau, however, has served notice that it does not accept this decision, and will probably take the case to the U.S. Supreme Court. (Case of Saalfield Publishing Co.)

Table 6. Ordinary life insurance premiums and cash values. Rates shown are level annual premiums to be paid each year from the time the policy is written. The rates are for "whole life" insurance, which means it is expected

TABLE 1

GROUP ANNUITY COSTS FOR MALES (UNIT BENEFIT PLAN)[1]

Annual Premium in Dollars and Per Cent of Payroll for Each $100 of Monthly Payroll

Benefit formula (monthly pension), per cent of average monthly income for each year of service	*Attained age*										
	20	*25*	*30*	*35*	*40*	*45*	*50*	*55*	*60*	*65*
¾%	$29.60 [2] *2.47%* [3]	$33.32 *2.78%*	$37.57 *3.13%*	$42.50 *3.54%*	$48.33 *4.03%*	$55.42 *4.62%*	$64.29 *5.36%*	$75.89 *6.32%*	$91.88 *7.66%*	$115.42 *9.62%*
1% [4]	39.47 *3.29*	44.43 *3.70*	50.09 *4.17*	56.66 *4.72*	64.44 *5.37*	73.89 *6.16*	85.72 *7.14*	101.19 *8.43*	122.51 *10.21*	153.89 *12.82*
1¼%	49.34 *4.11*	55.54 *4.63*	62.61 *5.22*	70.83 *5.90*	80.55 *6.71*	92.36 *7.70*	107.15 *8.93*	126.49 *10.54*	153.14 *12.76*	192.36 *16.03*
1½%	59.21 *4.93*	66.65 *5.55*	75.14 *6.26*	84.99 *7.08*	96.66 *8.06*	110.84 *9.24*	128.58 *10.72*	151.79 *12.65*	183.77 *15.31*	230.84 *19.24*
2%	78.94 *6.58*	88.86 *7.41*	100.18 *8.35*	113.32 *9.44*	128.88 *10.74*	147.78 *12.32*	171.44 *14.29*	202.38 *16.87*	245.02 *20.42*	307.78 *25.65*
2½%	98.68 *8.22*	111.08 *9.26*	125.23 *10.44*	141.65 *11.80*	161.10 *13.43*	184.73 *15.39*	214.30 *17.86*	252.98 *21.08*	306.75 *25.52*	384.73 *32.06*

[1] Based on 1937 Standard Annuity Mortality Table, with interest guaranteed at 2¼%. No death benefit is provided either before or after retirement. "Loading" for administration and contingencies is included. Rates may vary slightly among insurance companies; those shown are quoted by several companies.

[2] Figures in roman are annual premiums per $100 of monthly payroll of covered workers in the particular age group.

[3] Figures in italics are percentage of payroll of covered workers in the particular age group.

[4] Premiums shown here are the "base rate" generally quoted and represent the single-sum cost, at the attained age, of $1 a month beginning at age 65.

TABLE 2

Group Annuity Costs for Females (Unit Benefit Plan)[1]

Annual Premium in Dollars and Per Cent of Payroll for Each $100 of Monthly Payroll

Benefit formula (monthly pension), per cent of average monthly income for each year of service	*Attained age*									
	20	*25*	*30*	*35*	*40*	*45*	*50*	*55*	*60*	*65*
¾%	$38.01 [2] *3.17%* [3]	$43.77 *3.65%*	$49.27 *4.11%*	$55.55 *4.63%*	$62.84 *5.24%*	$71.47 *5.96%*	$81.95 *6.83%*	$95.07 *7.92%*	$112.22 *9.35%*	$135.86 *11.32%*
1% [4]	50.68 *4.22*	58.36 *4.86*	65.69 *5.47*	74.06 *6.17*	83.78 *6.98*	95.29 *7.94*	109.26 *9.11*	126.78 *10.57*	149.63 *12.47*	181.15 *15.10*
1¼%	63.35 *5.28*	72.95 *6.08*	82.11 *6.84*	92.58 *7.71*	104.73 *8.73*	119.11 *9.93*	136.58 *11.38*	158.45 *13.20*	187.04 *15.59*	226.44 *18.87*
1½%	76.02 *6.34*	87.54 *7.30*	98.54 *8.21*	111.09 *9.26*	125.67 *10.47*	142.94 *11.91*	163.89 *13.66*	190.14 *15.85*	224.45 *18.70*	271.73 *22.64*
2%	101.36 *8.45*	116.72 *9.73*	131.38 *10.95*	148.12 *12.34*	167.56 *13.96*	190.58 *15.88*	218.52 *18.21*	253.52 *21.13*	299.26 *24.94*	362.30 *30.19*
2½%	126.70 *10.56*	145.90 *12.16*	164.23 *13.69*	185.15 *15.43*	209.45 *17.45*	238.23 *19.85*	273.15 *22.76*	316.90 *26.41*	374.08 *31.17*	452.88 *37.74*

[1] Based on 1937 Standard Annuity Mortality Table, with interest guaranteed at 2¼%. No death benefit is provided either before or after retirement. "Loading" for administration and contingencies is included. Rates may vary slightly among insurance companies; those shown are quoted by several companies.

[2] Figures in roman are annual premiums per $100 of monthly payroll of covered workers in the particular age group.

[3] Figures in italics are percentage of payroll of covered workers in the particular age group.

[4] Premiums shown here are the "base rate" generally quoted and represent the single-sum cost, at the attained age, of $1 a month beginning at age 65.

TABLE 3

GROUP ANNUITY COSTS FOR MALES (FLAT BENEFIT PLAN)[1]

Annual Premiums in Dollars per Year per Employee

Benefit: $100 per month (purchased in equal annual installments to retirement.)[2]

Attained age[4]	*Starting age*[3]									
	20	*25*	*30*	*35*	*40*	*45*	*50*	*55*	*60*	*65*
20	87.62	—								
25	98.63	111.08	—							
30	111.20	125.23	143.26	—						
35	125.79	141.65	162.05	188.68	—					
40	143.06	161.10	184.30	214.59	257.76	—				
45	164.04	184.73	211.33	246.05	295.56	369.45	—			
50	190.30	214.30	245.16	285.45	342.88	428.60	571.75	—		
55	224.64	252.98	289.40	336.96	404.76	505.95	674.94	1,011.90	—	
60	271.97	306.28	350.38	407.96	490.04	612.55	817.14	1,225.10	2,450.20	—
65	341.64	384.73	440.13	512.45	615.56	769.45	1,026.45	1,538.90	3,077.80	15,389.00
Approximate total cost to retirement[5]	$7,721.45	$8,171.00	$8,671.90	$9,207.95	$9.849.50	$10,582.80	$11,456.20	$12,502.50	$13,820.00	$15,389.00

[1] Based on 1937 Standard Annuity Mortality Table, with interest guaranteed at 2¼%. No death benefit is provided either before or after retirement. "Loading" for administration and contingencies is included. Rates may vary slightly among insurance companies; those shown are quoted by several companies.

[2] Amount to be purchased each year is determined by number of years from first purchase to retirement age. As a formula it is \$100 ÷ (65 − starting age).

[3] Age of individual employee when first of the equal annual installments is purchased.

[4] Age of individual employee (who started at a particular age) when a particular installment is purchased.

[5] For each employee starting at indicated age. Mortality is discounted in advance. Average cost per employee will be reduced to the extent withdrawals take place.

TABLE 4

Group Annuity Costs for Females (Flat Benefit Plan)[1]

Annual Premiums in Dollars per Year per Employee

Benefit: $100 per month (purchased in equal annual installments to retirement)[2]

Attained age[4]	*Starting age*[3]									
	20	*25*	*30*	*35*	*40*	*45*	*50*	*55*	*60*	*65*
20	112.51	—								
25	129.56	145.90	—							
30	145.83	164.23	187.87	—						
35	164.41	185.15	211.81	246.62	—					
40	185.99	209.45	239.61	278.99	335.12	—				
45	211.54	238.23	272.53	317.32	381.16	476.45	—			
50	242.56	273.15	312.48	363.84	437.04	546.30	728.76	—		
55	281.41	316.90	362.53	422.11	507.04	633.80	845.49	1,267.60	—	
60	332.18	374.08	427.94	498.27	598.52	748.15	998.03	1,496.30	2,992.60	—
65	402.15	452.88	518.09	603.23	724.60	905.75	1,208.27	1,811.50	3,623.00	18,115.00
Approximate total cost to retirement[5]	$9,754.20	$10,377.95	$10,899.50	$11,527.85	$12,267.85	$13,296.70	$14,060.20	$15,179.50	$16,539.00	$18,115.00

[1] Based on 1937 Standard Annuity Mortality Table, with interest guaranteed at 2¼%. No death benefit is provided either before or after retirement. "Loading" for administration and contingencies is included. Rates may vary slightly among insurance companies; those shown are quoted by several companies.

[2] Amount to be purchased each year is determined by number of years from first purchase to retirement age. As a formula it is $100 ÷ (65 − starting age).

[3] Age of individual employee when first of the equal annual installments is purchased.

[4] Age of individual employee (who started at a particular age) when a particular installment is purchased.

[5] For each employee starting at indicated age. Mortality is discounted in advance. Average cost per employee will be reduced to the extent withdrawals take place.

TABLE 5

INDIVIDUAL ANNUITY POLICIES

Level Annual Premiums for Units of $10 a Month at Age 65

	Pure annuity[1]		*Annuity plus $1,000 insurance*[2]	
Age	*Males*	*Females*	*Males*	*Females*
20	$18.00	$21.80	$29.80	$32.40
25	22.20	26.70	34.90	38.20
30	27.90	33.30	41.70	45.60
35	35.90	42.50	50.80	55.70
40	47.80	56.00	63.60	69.90
45	66.80	77.40	82.80	91.30
50	99.80	114.10	114.60	126.70
55	168.40	189.90	177.30	196.80

[1] Insurance company rates, based on Standard Annuity Mortality Table (2¼%). In the event of death before age 65, all premiums are returned, but without interest.

[2] Insurance company rates, based on Commissioner's Standard Ordinary Table (2¼%); $10 monthly life income, 120 months certain to annuitant or beneficiary if annuitant dies within 10 years of retirement.

that premiums will be paid to the date of death. When used in connection with an ordinary life pension trust, payments are stopped when the employee reaches 65 and the policy is surrendered to the insurance company for its cash value. This cash value is used to supplement the money accumulated in an auxiliary fund. The total is used to purchase annuities, or the pension may be paid directly from the fund. (In either case, the tables in Appendix 8 will let you estimate costs—simply subtract the cash value of the policy from the money that must be on hand at age 65.) It should be noted that minor features of life insurance policies are varied from one company to another, and that rates will vary accordingly. Those shown are quoted by two companies and may be regarded only as "typical" of premiums on participating policies (ones on which dividends are paid). Some companies write a special form of ordinary life insurance which contains a "change of plan" clause.

TABLE 6

ORDINARY LIFE INSURANCE PREMIUMS AND CASH VALUES AT AGE 65 *

Starting Age	*Commissioners Standard Ordinary*								*Amer. Experience*		*Amer. Men (Ultimate)*	
	2%		2¼%		2½%		3%		3%		3%	
	L.A.P.[1]	*C.V. 65*[2]	*L.A.P.*	*C.V. 65*	*L.A.P.*	*C.V. 65*	*L.A.P.*	*C.V. 65*	*L.A.P.*	*C.V. 65*	*L.A.P.*	*C.V. 65*
20	$18.10	$651	$18.40	$635	$18.30	$628	$16.60	$601	$18.10	$583	$16.30	$603
25	20.60	628	20.90	612	20.90	606	19.00	580	20.30	566	18.30	584
30	23.70	600	24.00	584	24.00	580	22.00	554	23.10	545	21.10	560
35	27.60	566	27.80	548	28.00	547	25.70	521	26.70	517	24.80	529
40	32.60	522	32.60	504	33.00	505	30.60	479	31.50	480	29.60	488
45	38.80	466	38.70	446	39.40	451	36.90	424	37.90	430	36.20	433
50	47.00	394	46.70	388	47.70	366	45.10	346	46.70	347	44.70	356
55	57.70	299	57.20	272	58.60	262	55.70	249	58.70	254	56.20	254
60	72.00	160	71.20	139	73.20	130	69.70	123	75.50	125	72.00	120

* Premiums are from insurance companies selected at random and are subject to some variation among companies. All premiums are quoted on a participating basis. Dividends will serve to reduce premiums or may be accumulated to supplement cash value; dividend rates will vary from company to company depending on *future* interest rates and mortality experience.

[1] Level annual premium. [2] Cash value at age 65.

This clause guarantees a rate for annuities to be purchased when the policy is surrendered; the rate is generally guaranteed on $10 of monthly income for each $1,000 of insurance. Additional annuities must be purchased at the "open market" rate when the employee retires (or the balance of the pension may be paid from the fund). The rates quoted are for policies that do *not* contain a "change of plan" clause.

APPENDIX 8

TABLES FOR APPROXIMATING PENSION COSTS—UNINSURED PLANS

EXPLANATION OF TABLES

Table 1. Pensions payable from $10,000 fund, and fund necessary to pay $1,000 annual pension. The two elements of this table are essentially reciprocals of one another. The former is more generally useful for money-purchase plans; the latter for fixed-benefit plans. The influence of mortality and interest assumptions stand out sharply. Other mortality tables are available; you will need expert advice in making your final selection. Unless your company is old enough and large enough to have a stable mortality experience of its own (even that will probably have to be modified to reflect *future* trends), your preliminary estimates should be based on conservative assumptions. Mortality rates are improving at the rate of between 1 and 2 per cent per year at the older ages (more for the younger ages). Therefore, in any choice between two mortality assumptions, the burden of proof should always be on the less conservative assumption. It is important to note that no allowance has been made for contingencies in these figures. If the group is large enough, and if the mortality assumption is correct, the fund will be adequate. (It's a little like tossing a coin. If you toss it often enough, the heads and tails will average out, but somewhere along the way you're likely to get a dozen heads in a row. The man who gets only a dozen tosses in all may not be able to pay off if he assumed he was going to win an "average" number of times.) To figure out how much must be in the fund, determine the number of thousands of dollars of annual pension that you will start paying in any given year, multiply by the "cost" shown for the particular mortality and interest assumption, and add a "safety factor" to protect yourself and your employees against the operation of the law of averages.

Table 2. Accumulations of single sums and annual installments. This table is really nothing more than a compound interest table. To simplify its use, the figures have been arranged in a reverse order from the normal table (*i.e.*, most interest tables show the value of $1 after a certain number of years, or of $1 a year after a certain number of years). For straight-line funding, you determine the total amount of annual pension that will be paid to all the

TABLE 1

PENSIONS PAYABLE FROM $10,000 FUND AND COST OF $1,000 ANNUAL PENSION

Mortality assumption			*Annual pension payable at age 65 from $10,000 fund**			*Cost of annual pension of $1,000 starting at age 65**		
			Interest rate assumption			*Interest rate assumption*		
Table	*Sex*	*Expectancy in years*	*2%*	*2½%*	*3%*	*2%*	*2½%*	*3%*
Amer. Exp.[1]	Either	11.10	$1,014	$1,043	$1,073	$ 9,866	$ 9,589	$ 9,326
A.M.U.[2]	Either	11.34	996	1,025	1,055	10,023	9,737	9,466
C.S.O.[3]	Either	11.55	980	1,009	1,039	10,221	9,912	9,640
U.S. Pop.[4]	Males	12.1	939	968	998	10,653	10,330	10,022
	Females	13.6	804	833	863	11,803	11,408	11,032
C.A.M.[5]	Males	12.74	894	923	953	11,156	10,802	10,465
1937 Std.[6]	Males	14.40	807	836	866	12,403	11,967	11,553
	Females	17.55	682	711	742	12,403	14,065	13,489

* No allowance for contingencies or administrative expense; to nearest $1.

[1] American Experience Table, based on experience of 1843–1858. (Until 1948, some states required insurance companies to use this table.)

[2] American Men Ultimate Table (Davis extension), based on experience of 1900–1915.

[3] Commissioners Standard Ordinary Table. Based on 1930–1940 experience of life insurance policy holders (compiled by State Insurance Commissioners).

[4] U. S. Population Statistics, based on U. S. Bureau of Census reports for 1939–1941. (Used for Social Security actuarial calculations.)

[5] Combined Annuity Mortality Table, based on 1918–1928 experience of annuitants. (Currently used by insurance companies.)

[6] 1937 Standard Annuity Mortality Table, based on 1931–1936 experience of annuitants. (Currently used by insurance companies.)

TABLE 2

Trust Fund Accumulations to Age 65 *

Age	Annual installments †			Single payments †		
	Interest rate			Interest rate		
	2%	2½%	3%	2%	2½%	3%
65	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
64	4,950	4,938	4,926	9,804	9,756	9,709
63	3,268	3,251	3,235	9,612	9,518	9,426
62	2,426	2,408	2,390	9,423	9,286	9,151
61	1,922	1,902	1,884	9,238	9,060	8,885
60	1,585	1,565	1,546	9,057	8,839	8,626
59	1,345	1,325	1,305	8,880	8,623	8,375
58	1,165	1,145	1,125	8,706	8,413	8,131
57	1,025	1,005	984	8,535	8,207	7,894
56	913	893	872	8,368	8,007	7,664
55	822	801	781	8,203	7,812	7,441
54	746	725	705	8,043	7,621	7,224
53	681	660	640	7,885	7,436	7,014
52	626	605	585	7,730	7,254	6,810
51	578	558	538	7,579	7,077	6,611
50	537	516	496	7,430	6,905	6,419
49	500	479	460	7,284	6,736	6,232
48	467	447	427	7,142	6,572	6,050
47	438	418	398	7,002	6,412	5,874
46	412	391	372	6,864	6,255	5,703
45	388	368	349	6,730	6,103	5,537
44	366	346	327	6,598	5,954	5,375
43	347	327	308	6,468	5,809	5,219
42	329	309	290	6,342	5,667	5,067
41	312	293	274	6,217	5,529	4,919
40	297	278	259	6,095	5,394	4,776
39	283	264	245	5,976	5,262	4,637

TRUST FUND ACCUMULATIONS TO AGE 65 (*Continued*)

Age	*Annual installments* †			*Single payments* †		
	Interest rate			*Interest rate*		
	2%	*2½%*	*3%*	*2%*	*2½%*	*3%*
38	270	251	233	5,859	5,134	4,502
37	258	239	221	5,744	5,009	4,371
36	246	228	210	5,631	4,887	4,243
35	236	217	200	5,521	4,767	4,120
34	226	208	190	5,412	4,651	4,000
33	217	199	182	5,306	4,538	3,883
32	208	190	173	5,202	4,427	3,770
31	200	182	165	5,100	4,319	3,660
30	192	175	158	5,000	4,214	3,554
29	185	167	151	4,902	4,111	3,450
28	178	161	145	4,806	4,011	3,350
27	172	154	138	4,712	3,913	3,252
26	166	148	133	4,619	3,817	3,158
25	160	143	127	4,529	3,724	3,066

* No discount for mortality or separations.
† To the nearest $1.

workers in each age group when they reach retirement. Table 1 will then tell you how much must be in the fund to pay these pensions. Take the ratio of that amount to $10,000 and multiply by the amount shown opposite the age of the group in the "annual installment" column under the assumed interest rate. For unit cost funding, determine the total amount of annual pension for each age group that will be payable as a result of this year's service. Get the amount that must be in the fund from Table 1. Take the ratio of this amount to $10,000 and multiply by the amount shown in the "single-sum" column under the assumed interest rate.

NOTE: Where straight-line funding is used for workers over 55, the full

TABLE 2

TRUST FUND ACCUMULATIONS TO AGE 65 *

Age	*Annual installments* †			*Single payments* †		
	Interest rate			*Interest rate*		
	2%	2½%	3%	2%	2½%	3%
65	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
64	4,950	4,938	4,926	9,804	9,756	9,709
63	3,268	3,251	3,235	9,612	9,518	9,426
62	2,426	2,408	2,390	9,423	9,286	9,151
61	1,922	1,902	1,884	9,238	9,060	8,885
60	1,585	1,565	1,546	9,057	8,839	8,626
59	1,345	1,325	1,305	8,880	8,623	8,375
58	1,165	1,145	1,125	8,706	8,413	8,131
57	1,025	1,005	984	8,535	8,207	7,894
56	913	893	872	8,368	8,007	7,664
55	822	801	781	8,203	7,812	7,441
54	746	725	705	8,043	7,621	7,224
53	681	660	640	7,885	7,436	7,014
52	626	605	585	7,730	7,254	6,810
51	578	558	538	7,579	7,077	6,611
50	537	516	496	7,430	6,905	6,419
49	500	479	460	7,284	6,736	6,232
48	467	447	427	7,142	6,572	6,050
47	438	418	398	7,002	6,412	5,874
46	412	391	372	6,864	6,255	5,703
45	388	368	349	6,730	6,103	5,537
44	366	346	327	6,598	5,954	5,375
43	347	327	308	6,468	5,809	5,219
42	329	309	290	6,342	5,667	5,067
41	312	293	274	6,217	5,529	4,919
40	297	278	259	6,095	5,394	4,776
39	283	264	245	5,976	5,262	4,637

TRUST FUND ACCUMULATIONS TO AGE 65 (*Continued*)

Age	Annual installments†			Single payments†		
	Interest rate			Interest rate		
	2%	2½%	3%	2%	2½%	3%
38	270	251	233	5,859	5,134	4,502
37	258	239	221	5,744	5,009	4,371
36	246	228	210	5,631	4,887	4,243
35	236	217	200	5,521	4,767	4,120
34	226	208	190	5,412	4,651	4,000
33	217	199	182	5,306	4,538	3,883
32	208	190	173	5,202	4,427	3,770
31	200	182	165	5,100	4,319	3,660
30	192	175	158	5,000	4,214	3,554
29	185	167	151	4,902	4,111	3,450
28	178	161	145	4,806	4,011	3,350
27	172	154	138	4,712	3,913	3,252
26	166	148	133	4,619	3,817	3,158
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* No discount for mortality or separations.
† To the nearest $1.

workers in each age group when they reach retirement. Table 1 will then tell you how much must be in the fund to pay these pensions. Take the ratio of that amount to $10,000 and multiply by the amount shown opposite the age of the group in the "annual installment" column under the assumed interest rate. For unit cost funding, determine the total amount of annual pension for each age group that will be payable as a result of this year's service. Get the amount that must be in the fund from Table 1. Take the ratio of this amount to $10,000 and multiply by the amount shown in the "single-sum" column under the assumed interest rate.

NOTE: Where straight-line funding is used for workers over 55, the full

amount of the annual payment to the pension fund may not be tax deductible if this results in more than 10 per cent of past service credit for a given worker being funded in any one year. You can fund it all right, but you may have to wait to get the deduction. The Circuit Court of Appeals has overruled the Bureau of Internal Revenue on this point, but the case will probably be appealed to the Supreme Court. (Case of Saalfield Publishing Co.)

Table 3. Present value of temporary annuities. As a matter of definition, this is the amount of money you would have to put in a bank at a given rate of interest to be able to pay out $1 a year, beginning immediately, for a given number of years. For convenience, this table is arranged in reverse order, so that it shows the present value of a temporary annuity to age 65. The values shown here are used primarily for determining costs by the aggregate funding method. You figure the total amount of annual pension that will be paid to all workers, starting at retirement. Use Table 1 to find the value of such pensions at age 65. Working back, use Table 2 to find the single sum for each age group that will produce at age 65 the amount necessary to pay the pensions of that age group. The total of such single sums is called the "present value of future benefits." Then take the total annual covered payroll of each age group and multiply by years to retirement. From Table 3, find the present value of these future earnings (assuming no change in the rate of income) by multiplying the total of these future earnings by the present value of a temporary annuity of $1 a year to age 65. The resulting figure is called the "present value of future earnings." Divide present value of future benefits by present value of future earnings to get what is called an "accrual rate." This is the percentage of covered payroll that must be placed in the fund each year. Note that past service credit may be included in determining the amount of future benefits, and that the payment so determined to the fund is fully deductible for tax purposes.

Table 4. Percentage of survivors at age 65. These tables are used in discounting for mortality prior to retirement. That is, you take the total number of workers of a given age and, instead of paying into the fund enough to provide pensions for all of then, you only pay in enough to provide pensions for those who will presumably live to retire. Note that there are wide variations from one mortality table to another. If your company is old enough and large enough to be able to compile such statistics based on its own experience, they are probably more satisfactory for your estimating purposes than is an arbitrary table based on the experience of a group which may be considerably different from yours. But you want to be sure to allow a "factor of safety" to protect you against the possibility that your future experience will be an improvement over past experience. In this connection, it is interesting to note the following: In an exhibit prepared for the Steel Industry Board, R. M. Peterson, Associate Actuary of the Equitable Life Assurance Society of America, reported that of each 1,000 persons in nonhazardous work

TABLE 3

PRESENT VALUE OF TEMPORARY ANNUITIES

$1 per Year Beginning Immediately and Payable to Age 65 *

Age	2%	2½%	3%	*Age*	2%	2½%	3%
65	$1.000	$1.000	$1.000	45	17.351	16.589	15.877
64	1.980	1.976	1.971	44	18.011	17.185	16.415
63	2.942	2.927	2.913	43	18.658	17.765	16.937
62	3.884	3.856	3.829	42	19.292	18.332	17.444
61	4.808	4.762	4.717	41	19.914	18.885	17.936
60	5.713	5.646	5.580	40	20.523	19.423	18.413
59	6.601	6.508	6.417	39	21.121	19.951	18.877
58	7.472	7.349	7.230	38	21.707	20.464	19.327
57	8.325	8.170	8.020	37	22.281	20.965	19.764
56	9.162	8.971	8.786	36	22.844	21.454	20.188
55	9.983	9.752	9.530	35	23.397	21.930	20.600
54	10.787	10.514	10.253	34	23.938	22.395	21.000
53	11.575	11.258	10.954	33	24.468	22.849	21.389
52	12.348	11.983	11.635	32	24.989	23.292	21.766
51	13.106	12.691	12.296	31	25.499	23.724	22.132
50	13.849	13.381	12.938	30	25.999	24.145	22.487
49	14.578	14.055	13.561	29	26.489	24.556	22.832
48	15.292	14.712	14.166	28	26.969	24.957	23.167
47	15.992	15.353	14.754	27	27.441	25.349	23.492
46	16.678	15.979	15.324	26	27.903	25.730	23.808
				25	28.355	26.103	24.115

* No discount for mortality.

covered by group life insurance in 1946–1947, no less than 751 had survived from age 30 to age 65. This compares with the expectation of 676 shown in the Combined Annuity Table and 709 shown in the Standard Annuity Table, the most conservative table in general use today. (All figures are for males only.) The Standard Industrial Table is shown primarily to warn you that it should not be used. The name makes it sound as though it might be appropriate; it is not. This table reports experience of the holders of "industrial

TABLE 4

PERCENTAGE OF SURVIVORS AT AGE 65

Age	*Mortality assumption*						
	1937 Std.[1]		*C.A.*[2]		*Std. Ind.*[3]	*C.S.O.*[4]	*Amer. Ex.*[5]
	Male	*Female*	*Male*	*Female*	*Either*	*Either*	*Either*
20	69.8	78.0	66.3	73.6	49.6	60.7	53.3
25	70.4	78.4	66.9	74.3	50.7	61.5	55.3
30	70.9	79.0	67.7	75.2	52.0	62.5	57.8
35	71.8	79.7	68.6	76.0	53.5	63.7	60.3
40	73.0	80.7	69.9	77.0	55.5	65.4	63.2
45	75.0	82.1	71.8	78.5	58.4	67.8	66.5
50	77.2	84.2	77.5	81.0	62.8	71.3	70.7
55	82.2	87.4	79.5	84.6	....	76.6	76.4
60	89.0	92.3	87.2	90.5	....	85.3	85.1
65	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] 1937 Standard Annuity Table.
[2] Combined Annuity Table (1928).
[3] 1941 Standard Industrial Table.
[4] Commissioners Standard Ordinary Table (1941).
[5] American Experience Table (1868).

insurance," a type of policy generally bought with weekly premiums. Most policies are for $500 or less (premiums are usually uniform, with the face value of the policy decreasing as the policyholder ages) and are most frequently purchased only by those who cannot afford the fixed commitment of the premium for even a minimum ordinary life policy. Not unnaturally, mortality in such a group is extremely high. Overestimating mortality means underestimating costs. (It should be noted that the "Standard Industrial table is seldom published outside of handbooks for the use of insurance companies which write industrial policies. It is stressed because of occasional reports that some unions are urging its use in discounting for mortality in computing pension costs. Most versions of this table do not show "percentage of survivors to 65" for ages over 50, since industrial insurance policies are seldom written for persons over 50.)

APPENDIX 9

SPECIMEN SELF-INSURED PENSION PLAN AND TRUST AGREEMENT

PREPARED BY THE COMMITTEE ON PENSION AND PROFIT-SHARING TRUSTS OF THE SECTION OF REAL PROPERTY, PROBATE AND TRUST LAW, AMERICAN BAR ASSOCIATION, CONSTITUTING THE REPORT OF SAID COMMITTEE FOR 1948

FOREWORD

The specimen self-insured pension plan and trust agreement that is set forth here is provided as a companion piece to the profit-sharing plan and trust agreement put out in 1947.

The Committee was encouraged to this activity by the many expressions of approval of the former work by members of the Bar.

The use of "alternate" and "illustrative" provisions has been reduced to a minimum this year. Our effort is directed to the drafting of a concise instrument rather than to a broadly inclusive one. "Illustrative" provisions and "Notes" are used in a few instances to provide special statements or references.

The proposed draft as initially prepared by the Chairman on behalf of the Committee was submitted to members of the Bar who have evidenced an interest in the Committee's activities as well as to the members of the Committee. The result is that the thinking of all of these experts has been centered upon condensing into this form as much of the present day experience and knowledge as possible. It should be understood, however, that all members of the Committee have not given their unqualified approval to all parts of these forms as there is of course ample room for differences of opinion as to many of their provisions.

The Committee appreciates the interest that has been shown in its activities by the questions that have been posed and the information that has been sent to it.

The names and addresses of the Committee members, for correspondence purposes, are as follows:

BERNARD E. FARR, Chairman........Pension Planning Company, 527 Fifth Avenue, New York 17, N. Y.
C. ALEXANDER CAPRON...20 Exchange Place, New York 5, N. Y.
L. F. LAYLIN..............Central National Bank of Cleveland, Cleveland 1, Ohio
DAVID E. BRONSON............First National-Soo Line Building, Minneapolis 2, Minnesota
FREDERICK E. DONALDSON............Breed, Abbott & Morgan, 15 Broad Street, New York 5, N. Y.
FRANCIS J. AMER.........The National City Bank of Cleveland, Cleveland 1, Ohio
DONALD J. LYNN....Mahoning Bank Building, Youngstown, Ohio

PENSION PLAN

OF

....

THE PLAN

Pursuant to due authorization by the Board of Directors of.... ....Inc., and of the following associated corporations, ..., ..., ..., in order to establish a systematic method by which their Employees may receive retirement allowances, said corporations hereby adopt a "Retirement Plan" to be known as the "Employees' Retirement Plan of .... Inc." The plan is effective as of................................... The plan shall operate in accordance with the following provisions:

SECTION 1. DEFINITIONS

The following words and phrases as used herein shall have the following meanings unless a different meaning is plainly required by the context:

1.1 "Plan" shall mean the Employees' Retirement Plan of.... .... Inc.

1.2 "Effective date of the plan" shall mean.................

1.3 "Company" shall mean .... and any other associated corporations (or their successors), which may be authorized from time to time by the Board of Directors to participate in the plan. "Employer" shall mean any of the said corporations separately in their employer-employee relationship hereunder.

1.4 "Board of Directors" shall mean the Board of Directors of .... Inc.

1.5 "Administrative Committee" or "Committee" shall mean the managing committee of the plan as provided in Section 6.

1.6 "Employee" shall mean any person regularly employed by the Company, who receives a regular stated compensation from the Company other than a pension, retainer, or a fee under contract. Any person in temporary, special, part time or seasonal employment shall not be considered as an Employee provided the employment customary of any such person is for not more than twenty hours in one week and that the employment of such person is for not more than five months in one calendar year.

1.7 "Member" shall mean any person included in the membership of the plan as provided in Section 2. "Active Member" shall mean a member in the service of the Company. "Retired Member" shall mean a member who has retired on a retirement allowance under the plan.

1.8 "Compensation" for determining prior service benefits referred to hereafter as "prior service compensation" shall mean the average annual compensation including salary, wages, commissions, and overtime, but excluding bonuses and any and all other special forms of compensation, paid to an Employee for services rendered by him to the Company during the ....-year period immediately preceding .... "Compensation" for determining future service benefits referred to hereafter as "future service compensation" with respect to any year shall mean the total compensation, including salary, wages, commissions, and

overtime, but excluding bonuses and any and all other special forms of compensation, paid to an Employee for services rendered to the Company during the calendar year immediately preceding the end of such year.

1.9 "Creditable future service" shall mean service rendered by a member subsequent to the effective date of the plan for which credit is allowed as provided in Section 3.1. "Creditable prior service" shall mean service rendered by a member prior to the effective date of the plan for which credit is allowed as provided in Section 3.2. "Creditable service" shall mean creditable future service plus creditable prior service. In computing the period of creditable service, any fractional part of a year comprising less than six months shall be ignored and any fractional part of a year comprising six months or more shall be considered as one year.

1.10 "Member's accumulated contributions" shall mean the amount standing to the credit of a member in the Member's Accumulation Account, as provided in Section 5.2(*c*).

1.11 "Actuarial equivalent" shall mean a benefit of equivalent value when computed on the basis of the actuarial principles last adopted by the Administrative Committee.

1.12 "Normal retirement age" of male employees shall be sixty-five years, except that the normal retirement age of those who are more than sixty-five years of age on the effective date shall be the effective date. The normal retirement age of female employees shall be sixty years, except that the normal retirement age of those who are more than sixty years of age on the effective date shall be the effective date.

1.13 "Normal Retirement date" of a member shall be the first of the month coincident with or next succeeding his normal retirement age.

1.14 The masculine pronoun whenever used shall include the feminine pronoun, and the singular shall include the plural where the context requires it.

1.15 "Trust fund" shall mean the trust to be established pursuant to this plan, out of which benefits pursuant to this plan shall be provided.

1.16 "Trustee" shall mean the trustee of the trust fund and any successor thereto.

1.17 "Trust agreement" shall mean the trust agreement pursuant to which the trust fund is established, as provided in SECTION 7 hereof.

SECTION 2. MEMBERSHIP

2.1 Any Employee of the Company on the effective date of the plan who was in the employ of the Company on .... shall become eligible for membership on the effective date thereof. Thereafter on any anniversary of the effective date any other Employee of the Company on such anniversary date shall thereupon become eligible for membership.

Alternate 2.1 Any Employee of the Company on the effective date of the plan who has completed at least .... years of service with the Company on said date shall become eligible for membership on the effective date thereof. Thereafter on any anniversary of the effective date any other Employee of the Company who has then completed at least .... years of service with the Company shall thereupon become eligible for membership.

2.2 As to any Employee who, with the consent of his Employer, leaves or has left the employ of his Employer in order to enter directly into the armed service of the United States, or who is a draftee regardless of such consent, and who returns to work for his Employer within ninety (90) days after discharge from such armed service, or within ninety (90) days after recovery from sickness or wounds resulting from such armed service and without intervening employment elsewhere, the period during which such Employee is in such armed service shall not be considered as a break in continuous service but shall receive no credit for service with the Company during such period.

NOTE: If benefits are to be granted with respect to the period in the armed services special wording to that effect should be used.

NOTE: Service in the armed forces of Allies of the United States or service in the Merchant Marine have in some cases been included.

2.3 Every eligible Employee shall be notified of his eligibility by the Company, and any such Employee who desires to become a member hereunder must file an application for membership with the Committee within sixty (60) days after the effective date of the plan or within sixty (60) days after the date he becomes eligible to be a member, or within sixty (60) days after he receives notice of his eligibility, whichever shall be later, or, if such time be extended by the Committee as hereinafter provided within the time as so extended. Such application shall consist of a written request to become a member hereunder, a written authorization for deduction of Employee contributions from his compensation on the form or forms provided by the Committee for that purpose, and such proof of his age as shall be requested of him. Every eligible Employee who shall file such application for membership with the Committee within the required time, shall become a member on or as of the effective date or on or as of the anniversary thereof on which he becomes eligible. The Committee shall extend the sixty (60) day period in which an employee may file application for membership upon proof that the application cannot be completed by such Employee within such period of sixty (60) days by virtue of circumstances beyond his control. An Employee in the armed service of the United States shall have sixty (60) days after his return to the employ of the Company in which to make such application and authorization but this shall not reduce the creditable service to which he shall be entitled.

2.4 Each Employee upon becoming a member shall be deemed conclusively for all purposes to have assented to the terms of the plan and shall be bound thereby. As soon as practicable thereafter the Committee shall mail or otherwise deliver to such member a certificate evidencing the fact that he has become such a member.

2.5 Any eligible Employee who has not become a member on or as of the effective date or the anniversary thereof upon which he became eligible, may become a member on or as of any later anniversary of the effective date, but shall not be entitled to any credit for service rendered prior thereto.

2.6 Any Employee who may be transferred from one Employer

to another shall not be considered as an Employee severing employment from the original Employer and as a new Employee of the succeeding Employer, but shall be considered for all purposes of the plan as an Employee of the succeeding Employer without lapse of employment and without change in credit for service rendered prior to the transfer.

SECTION 3. CREDITABLE SERVICE

3.1 All service rendered by an Employee while he is a member, after be becomes a member, or after he last becomes a member in the event of a break in membership, and until the attainment of his normal retirement date, shall be counted as creditable future service.

3.2 Any Employee who becomes a member on or as of the effective date of the plan shall be entitled to creditable prior service for the number of years of service rendered as an Employee prior to the effective date of the plan, provided that any such service rendered prior to a break in such service of .... year or more duration shall not be included as creditable prior service.

3.3 Creditable service rendered by an Employee who leaves or has left the employ of the Company in order to enter directly into the armed service as defined in Section 2.2 shall be controlled by said Section.

3.4 If any member's compensation is suspended as a result of temporary absence from work, due to failure to report, layoff, leave of absence, sickness, accident or other cause, such temporary absence shall not cause a break in membership, provided he thereafter resumes work with the Company's consent.

SECTION 4. BENEFITS

4.1 Retirement Benefits

(*a*) The standard retirement allowance provided hereunder is payable monthly in the form of a life annuity with modified cash refund, the first of such payments to be made on the first day of the month coincident with or next succeeding the date of actual

retirement and to continue until his death provided that minimum payment shall be made to the member, his beneficiary or his legal representative in an amount equal to the member's accumulated contributions as determined by Section 5.2(*c*). If the annuity payable to a retired member or beneficiary shall be less than $240 per annum, instead of being payable in equal monthly installments, it may, if the Committee so determines, be made payable in installments at less frequent intervals, or if the Committee so determines there shall be paid to such retired member or beneficiary a lump sum in an amount equal to the actuarial equivalent of such annuity.

(*b*)(1) Any member in the service of the Company on the effective date who has then passed his normal retirement date shall be entitled to a retirement allowance with creditable service computed to the effective date. Payments shall be made as provided in Section 4.1(*a*).

(2) Any member who attains his normal retirement date after the effective date while in the service of the Company shall be entitled to a retirement allowance, with creditable service computed to such normal retirement date and payment shall be made as provided in Section 4.1(*a*).

(3) Any member may, with the consent and approval of the Board of Directors, continue in active service of the Company after his normal retirement date, but this shall not increase his creditable service or his retirement allowance hereunder, and payment shall be made as provided in Section 4.1(*a*).

(4) Any member may with the consent and approval of the Board of Directors be retired at any time not more than .... years prior to normal retirement date, on an early retirement allowance upon written application therefor. Such early retirement allowance shall consist of the actuarial equivalent of a retirement benefit commencing at normal retirement date and based upon the creditable service to the date of such early retirement. The payment shall be made as provided in Section 4.1(*a*).

(*c*)(1) The standard retirement allowance shall consist of an amount per annum equal to .... per cent (...%) of the

member's prior service compensation up to $3,000., plus .... per cent (...%) of his said compensation in excess of $3,000. multiplied by the number of years of his creditable prior service, plus .... per cent (....%) of his future service compensation up to $3,000. plus .... per cent (....%) of his said compensation in excess of $3,000. with respect to each year of creditable future service.

(2) The minimum retirement allowance at normal retirement date, however, shall be ...... dollars ($....) per month.

(*d*) At any time not later than........days prior to the date when the first payment of retirement allowance becomes due, a member may elect to receive a reduced retirement allowance with provision for benefits to his designated beneficiary, which together shall be the actuarial equivalent of the retirement allowance otherwise payable to him; provided, however, that in the event of the death of the retired member within...... (..) days after retirement, all rights of such designated beneficiary under the election shall cease and determine, and such retired member shall be deemed not to have made such election. In case of such an election the retired member shall be entitled to receive for life a reduced survivorship allowance and after his death the named beneficiary shall be entitled to receive for life a survivorship allowance equal to the reduced allowance payable to the retired member, or equal to such fraction of the amount of such reduced allowance to the retired member, as may be elected by the member. If the designated beneficiary dies before the first payment of retirement allowance becomes due, the amount of retirement allowance which would have been payable had such survivorship allowance not been elected will be payable to the retired member as if such election had not been made. If the member dies before he receives his first payment of retirement allowance, the beneficiary shall not be entitled to a survivorship annuity. If the designated beneficiary predeceases the retired member after his retirement, the retired member will continue to receive the reduced retirement allowance without change on account of the death of the designated beneficiary.

4.1(*d*) NOTE: The provision that in the event of death of the retired member within ...... (..) days after his retirement the designation of the beneficiary shall cease and determine is the protection against death bed elections. In lieu of this many plans require that the election of the survivorship pension shall be made at least one year before the normal retirement date, unless on proof of the good health of the member the Committee permits such election to be made at a later date.

4.2 SEVERANCE BENEFIT

Any member, upon ceasing to be an Employee for any cause other than death or retirement, shall be entitled to receive within six months thereafter a lump sum equal to the member's accumulated contributions as determined in Section 5.2(*c*), in full satisfaction of all of his benefit rights under this plan accrued to the date of his severance. Provided, however, that if such member shall not withdraw the aforesaid sum representing his contributions hereunder and shall then have attained .... years of age and shall have completed at least .... years of creditable service with the Company he shall have a vested right to a standard retirement allowance.

4.3 DEATH BENEFIT BEFORE RETIREMENT

Upon the receipt of proof satisfactory to the Committee of the death of an active member, there shall be paid to such beneficiary, if then living, as may have been designated by such member, or if none to the personal representative of such member, a lump sum equal to the member's accumulated contributions as determined in Section 5.2(*c*).

4.4 DEATH BENEFIT AFTER RETIREMENT

Upon the receipt of proof satisfactory to the Committee of the death of a retired member after retirement benefit payments to him have commenced or upon the receipt of such proof of the death of both a retired member and the person designated to receive a life allowance after his death in case an election under Section

4.1 (*d*) has been made, there shall be paid to the personal representative of such member, any balance then remaining of the member's accumulated contributions as determined in Section 5.2(*c*).

4.5 Designation of Beneficiary

The application for membership blank shall provide for the designation by the member of a beneficiary to whom all accumulated contributions, if any, payable under Paragraph 4.3 shall be paid in the event of the member's death. The beneficiary so designated may be changed by the member at any time or from time to time during his life by signing and filing with the Committee a written notification of change of beneficiary in such form as shall be provided by the Committee. If no person shall be designated as such beneficiary or if the designated beneficiary shall not survive the member any such payment shall be made to the estate of the deceased member.

4.6 Elections

Where a member is entitled to elect to receive any benefit in lieu of a standard retirement allowance such election shall be made by filing with the Committee a statement of such election on a form to be provided by the Committee.

4.7 Stockholder Limitation

Anything herein contained to the contrary notwithstanding no contributions by the Company which are required to provide benefits for members, each of whom owns, directly or indirectly, more than ten per cent of the voting stock of the Company, shall exceed, in the aggregate, thirty per cent of the annual contributions by the Company. For the purpose of determining stock ownership an individual shall be considered as owning the stock owned by the spouse and minor lineal descendants of such individual. In the event that the contributions are curtailed by this Section 4.7 the result will be to reduce the amounts due to such members and their beneficiaries in like proportion.

4.8 PENSION ROLL [NOTE—This is not essential but may be found desirable]

Each pensioner of the Company who is on the pension roll of the Company on the day next prior to the effective date of this plan, shall be entitled to the retirement allowance previously awarded to him by the Company, to be continued to him in the same periodical manner and amount as previously paid to him. The past service costs as defined in 5.1 shall include the cost which would be required to fund completely or purchase the allowance for the benefit of such pensioners who are on the pension roll on said date. The payment of such allowance is to be made from the Trust Fund.

SECTION 5. CONTRIBUTIONS AND ACCOUNTS

Contributions to provide the benefits under the plan shall be made by the Company and the Members.

5.1 COMPANY CONTRIBUTIONS

The contributions of the Company to provide the retirement benefits shall be payable at such intervals as may be agreed upon by the Company and the Committee and shall consist of a contribution to cover the normal cost of the plan known as the "normal contribution" and of a contribution towards the cost of past service and other supplemental annuity credits known as the "past service contribution."

(*a*) *Normal Contribution*

The normal contribution for retirement benefits for any year is that sum actuarially determined which would be required during any year in addition to the contributions of the Members to maintain the plan assuming that the plan had been in effect from the beginning of the creditable service of each then included member and that the costs for prior years had been paid and that all assumptions as to interest, mortality, salary scale, severance, disability,

retirements, time of payments, loading for expenses and valuation method, had been fulfilled.

(*b*) *Past Service Contribution*

The past service contribution is that portion of the total contribution which is applied towards the funding of the past service liability. The past service liability for retirement benefits at any time is the amount which would be required at such time to meet all the future retirement benefits provided by the plan which will not be met by the expected payments of normal contributions and expected future contributions of members.

(*c*) *Expenses*

The Company shall in its sole discretion determine from year to year whether the administrative expenses of the plan shall be paid by it or out of the trust fund.

(*d*) *Irrevocability of Contributions*

Any and all contributions made by the Company shall be irrevocable and shall be transferred by the Company to the Trustee or Trustees and held as provided in Section 7 to be used in accordance with the provisions of this plan in providing the benefits and paying the expenses of the plan, and neither such contributions nor any income therefrom will be used for or diverted to purposes other than for the exclusive benefit of active or retired members or their beneficiaries under the plan and payment of administration expenses prior to the satisfaction of all liabilities to such members and their beneficiaries for benefits under the plan.

5.2 MEMBERS' CONTRIBUTIONS

(*a*) Each member shall contribute ....% of the first $3,000. and ......% of the excess of his compensation with respect to each year of creditable future service.

(*b*) Members' contributions shall begin ....
and shall be deducted by the Company from their compensation.

(*c*) Members' Accumulation Account

The Committee shall cause to be maintained an account to be known as the Members' Accumulation Account. The Members' Accumulation Account shall show separately the record of all contributions made by each member together with interest at ......% compounded annually, to the .... day of the month coinciding with or immediately preceding the date on which any of the following occurs: Termination of service, death, retirement or attainment of the normal retirement date. All benefits payable under the plan shall first be paid from the member's accumulated contributions until they are exhausted.

SECTION 6. ADMINISTRATION OF PLAN

6.1 The general administration of the plan and the responsibility for carrying out its provisions shall be placed in the Committee, the members of which shall be appointed from time to time by the Board of Directors to serve at the pleasure of the Board of Directors.

6.2 There shall be not less than .... persons at any time acting as members of the Committee. Subject to such limitation, the Board of Directors from time to time may increase or decrease the number of members of the Committee as the Board of Directors in its discretion shall deem best. The original Committee shall consist of .... persons.

6.3 Any person hereafter appointed a member of the Committee shall signify his acceptance by filing written acceptance with the Board of Directors and with the Secretary of the Committee. Any member of the Committee may resign by delivering his written resignation to the Board of Directors and the Secretary of the Committee, and such resignation shall become effective upon the date specified therein.

6.4 The members of the Committee shall elect a Chairman, and a Secretary who may be but need not be one of the members of the Committee, and may appoint from their number such committees with such powers as they shall determine, may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment in their behalf, and may employ

counsel and agents and such clerical, accounting and actuarial services as they may require in carrying out the provisions of this plan.

6.5 The Committee shall hold meetings upon such notice, at such place or places, and at such time or times as they may from time ot time determine.

6.6 A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business. All resolutions or other actions taken by the Committee at any meeting shall be by the vote of a majority of the Committee.

6.7 The Committee shall be entitled to reimbursement for any expenses incurred by it or any of its members in the performance of their duties hereunder to be paid from the Trust Fund if not paid by the Company. No member of the Committee shall receive any compensation from the plan for his services as such, and no bond or other security need be required of him in such capacity in any jurisdiction.

6.8 Subject to the provisions of this plan, the Committee from time to time shall establish rules for the administration of the plan and the transaction of its business. The Committee may correct any defect or supply any omission or reconcile any inconsistency in such manner and to such extent as it shall deem advisable to carry out the purposes of the plan. The Committee may interpret and construe the plan, determine questions of eligibility and the rights and status of members and others under the plan, and decide disputes arising under the plan.

6.9 The Committee shall adopt from time to time service, interest, and mortality tables for use in all actuarial calculations required in connection with the plan. As an aid to the Committee, the actuary designated by the Committee shall make periodic actuarial valuations of the assets and liabilities of the plan, and shall certify such valuation to the Committee.

6.10 The Committee shall have authority to approve the actuarial assumptions underlying the plan.

6.11 The members of the Committee and the Company and its officers and directors shall be entitled to rely upon all tables, valua-

tions, certificates and reports furnished by any actuary designated by the Committee, upon all certificates and reports made by any accountant selected by the Committee, and upon all opinions given by any legal counsel selected by the Committee, and the members of the Committee and the Company and its officers and directors shall be fully protected in respect of any action taken or suffered by them in good faith in reliance upon any actuary, accountant, or counsel and all action so taken or suffered shall be conclusive upon all members of the plan and their beneficiaries and their personal representatives.

6.12 The Committee shall keep appropriate books and records.

6.13 The Company shall indemnify and save harmless each member of the Committee against any cost or expense (including his attorney's fees) or liability (including any sum paid in settlement of any claim with the approval of the Board of Directors) arising out of any act or omission to act as a member of said Committee, except only his own gross negligence or willful misconduct.

SECTION 7. MANAGEMENT OF FUNDS

7.1 The Company proposes to enter into a trust agreement with ...., providing for the administration of the trust fund by that Trust Company as Trustee thereof, in such form and containing such provisions as the Company deems appropriate, including, but not by way of limitation. provisions with respect to the powers and authority of the Trustee and of the Committee as to the investment and reinvestment of the trust fund, the income therefrom and the administration of the trust fund, the limitations on the liability of the Trustee, authority of the Company to settle the accounts of the Trustee and of the Committee on behalf of all persons having any interest in the trust fund, and, from time to time, to appoint a new Trustee in place of any then acting Trustee of the trust fund, and providing, with respect to any payments to or for the benefit of any Employee or beneficiary under this plan, that the Trustee shall follow the directions of the Committee. When entered into, the trust agreement shall be deemed to form a part of this plan, and any and all rights or benefits which

may accrue to any person under this plan shall be subject to all the terms and provisions of said trust agreement.

7.2 The assets of the plan shall be held in trust under the trust agreement provided for in Section 7.1 by the Trustee or Trustees appointed from time to time by the Board of Directors by appropriate instrument. The investment of the funds in the Members' Accumulation Account shall at all times be restricted to securities issued by or guaranteed by the government of the United States of America. The investment of other funds need not be restricted to the investments in which trustees are by law or any rule of Court authorized to invest trust funds. The Board of Directors may remove any Trustee at any time, upon reasonable notice, and upon such removal or upon the resignation of any Trustee the Board of Directors shall designate a successor Trustee or Trustees.

7.3 The Committee shall determine the manner in which the assets of the plan shall be disbursed, including the form of voucher or warrant to be used in making disbursements and the due qualification of persons authorized to approve and sign the same. It shall issue instructions to the Trustee with respect to the payment of all benefits under this plan and the Trustee shall be fully protected in following all instructions which may be issued to it by the Committee as to the disbursement of funds either for expenses or benefits.

SECTION 8.

CERTAIN RIGHTS AND OBLIGATIONS OF COMPANY

8.1 It is the intention of the Company to continue the plan and make its contributions regularly each year, but nothing herein contained shall be deemed to require the Company to make all or any of the contributions under this plan and the Company shall be under no legal obligation to do so. The Company's obligation hereunder is limited solely to making contributions to the trust fund, as provided in this plan. All benefits payable under this plan shall be paid or provided for solely from the trust fund. Under no circumstances shall any liability attach to the Company

for any benefits or claim of any member, his personal representatives or beneficiaries under this plan.

8.2 RIGHT TO TERMINATE

The plan may be terminated at any time by the Board of Directors in its sole discretion with respect to the entire plan or with respect to any Employer included hereunder. Upon such a termination the portion of the funds which are to be segregated for the Employees of any separate Employer shall be segregated as stated in the following paragraph (*a*).

(*a*) *Segregation of Funds*

The portion of the fund which is to be segregated for the benefit of the Employees of each Employer for which the retirement provisions are terminated, shall be that proportion of the trust fund which the aggregate of all contributions of that Employer and its Employees bears to the aggregate of all contributions of all Employers and their Employees. The resulting amount attributable to such contributions shall be applied in accordance with Section 8.3 as to distribution of retirement assets.

8.3 In the event of the termination of the retirement provisions of the plan for any cause each member's accumulated contributions as determined by Section 5.2(*c*) shall be apportioned to such member. The balance of the trust fund shall be used for the benefit of active members, retired members and their beneficiaries under the plan and for no other purpose until all liabilities to them for retirement benefits accrued under the plan and administration expenses have been satisfied. Any surplus thereafter remaining resulting from erroneous actuarial computations shall be returned to the Employer.

In the event that the trust fund is insufficient to satisfy in full such liabilities, then such assets shall be used in the following order toward the satisfaction of such liabilities:

There shall first be set aside out of the trust fund for the first class, consisting of retired members and their beneficiaries, the actuarial value as determined by the Committee of the benefits

to which they are entitled under this plan in excess of the members' accumulation accounts of such retired members. Next there shall be set aside out of the trust fund for the second class, consisting of those active members who have then attained the age of .... years and shall have completed at least .... years of service with the Company, the actuarial value of the benefits accrued to them or their beneficiaries under the plan as determined by the Committee in excess of the members' accumulation accounts of said active members. Any balance shall be apportioned among all other active members in proportion to the actuarial value of the benefits accrued to them or their beneficiaries as determined by the Committee in excess of the members' accumulation accounts of such members.

The amount set aside for the members of each class shall be apportioned among them in the proportion which the actuarial value of the benefits accrued to each, in excess of his members' accumulation account, bears to that of the others.

The amount apportioned to any member or beneficiary including the amount of his members' accumulation account shall be disbursed as may be determined by the Committee either (1) in the purchase of an annuity for life for him to commence at his normal retirement date or such earlier date as may be determined by the Committee, or (2) in substantially equal installments over a period of not exceeding .... years, or (3) in a lump sum.

8.4 In the event that the plan is terminated or the full current costs thereof have not been met at any time within ten years after its establishment, the benefits which any of the "twenty-five highest paid Employees," as hereinafter defined, may receive from the Company's contributions shall not exceed the larger of the following amounts:

(1) $20,000.00; or

(2) An amount equal to twenty per cent (20%) of the first Fifty Thousand Dollars ($50,000.00) of the Employee's average regular annual compensation multiplied by the number of years since the effective date.

These conditions shall not restrict the current payment of full retirement benefits called for by the plan for any retired member while the plan is in full effect and its full current costs have been met. In the event that any funds are released by operation of the restriction set forth in this Section 8.4 they shall be used for the benefit of members other than the twenty-five highest paid Employees.

For the purpose of this subsection the "twenty-five highest paid employees" shall mean the twenty-five highest paid Employees as of the time of the establishment of the plan, including any such high paid Employees who are not members at that time, but may later become members (excluding any Employees whose annual benefits provided by the Company's contributions will not exceed Fifteen Hundred Dollars ($1,500.00).

8.5 The establishment of this plan shall not be construed as conferring any legal or other rights upon any Employee or any person for a continuation of employment, nor shall it interfere with the rights of the Employer to discharge any Employee or otherwise act with relation to him; and the Employer may take any action (including discharge) with respect to any Employee or other person and may treat him without regard to the effect which such action or treatment might have upon him as a member of the plan.

8.6 Any discretionary acts to be taken under the provisions of the plan by the Board of Directors or by the Committee, with respect to classification of employees, contributions or benefits shall be uniform in their nature and applicable to all those persons similarly situated, and no discretionary act shall be taken which shall be discriminatory in favor of officers, shareholders, supervisory or highly compensated employees.

8.7 The Committee shall not direct the Trustee, and the Trustee shall not be required, to make any payment to the beneficiary or personal representative of a deceased member until and unless there has been furnished to the Committee and the Trustee such proof of death, and of the appointment of the personal representative and such waiver of governmental taxing authorities as may reason-

ably be required by the Committee or by the Trustee, or either of them.

SECTION 9. NON-ALIENATION OF BENEFITS

9.1 No benefit under the plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, levy or charge, and any attempt so to anticipate, alienate, sell, transfer, assign, pledge, encumber, levy upon or charge the same shall be void; nor shall any such benefit be subject to execution or attachment. If any active or retired member or any other beneficiary under the plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under the plan, or the same would, except for the provisions of this section, become subject to execution or attachment, then such benefit shall pass and be transferred to such one or more as may be appointed by the Committee from among the spouse or blood relatives of such member or beneficiary, as the case may be, in such shares and proportions as the Committee may appoint. An appointment so made may be modified and changed by the Committee at any time and it may, in its sole discretion, at any time reappoint to receive any payment thereafter becoming due, either in whole or in part, the member or beneficiary who would under the plan, except for the condition mentioned in this section, have the right to receive such payment.

SECTION 10. AMENDMENTS

10.1 "........................, Inc." reserves the right at any time and from time to time by action of its Board of Directors to modify or amend in whole or in part any or all of the provisions of this plan. Without limiting the generality of the foregoing the Board of Directors may make any modifications or amendments in the plan as to benefits or otherwise (retroactively if necessary) which it deems appropriate in order to bring the plan into conformity with or to satisfy any conditions of any laws or regulations in order that contributions to the plan may be deductible for tax purposes or in order to qualify the plan or the Trust, under Section

165(*a*) of the Internal Revenue Code or the applicable provisions of any subsequent Revenue Law or Laws. No part of the assets of the plan shall, by reason of any modification or amendment, be used for, or diverted to, purposes other than for the exclusive benefit of active or retired members, their beneficiaries or estates under the plan and administrative expenses of the plan prior to the satisfaction of all liabilities to such members, their beneficiaries and estates, for benefits hereunder.

SECTION 11. CONSTRUCTION

11.1 The provisions of the plan shall be construed and enforced according to the laws of the State of .... and all of the provisions of this plan shall be administered in accordance with the laws of said State.

PENSION TRUST AGREEMENT

THIS AGREEMENT is made this .... day of ...., 194........, by and between ...., a corporation organized under the laws of the State of............ and having its principal office at.........................., hereinafter referred to as the "Employer," and................ ...., a trust company organized under the laws of the State of................. (or alternately, a national banking association organized and existing under the laws of the United States of America, having its principal office in the city of....................., State of ....), hereinafter referred to as the "Trustee."

WHEREAS, the Employer has adopted a pension plan which is known as "(here give name by which the plan is known)" and which, together with all amendments and supplements thereto, is hereinafter referred to as the "Plan" for the benefit of its Employees and those of its associated corporations as shall participate in accordance with the terms and conditions stated in said Plan and the following agreement; and

WHEREAS, the Employer has made the initial contribution hereunder by a transfer of .... dollars ($..........) to the

Trustee, receipt thereof being hereby acknowledged under agreement to hold said contribution and all other sums which may be received by it in trust, for the uses and purposes and upon the terms and conditions herein stated; and

WHEREAS, the Employer has appointed the initial members of the Committee;

Now, therefore, to carry said Plan into effect and in consideration of the premises and of the mutual covenants herein contained, the Employer and the Trustee do hereby covenant and agree as follows:

First—Restriction of Use of the Fund

1.1 No part of the corpus or income of the trust fund shall be used for any purposes except the exclusive benefit of members or their beneficiaries or estates and the expenses of the administration of the Plan and Trust Agreement.

Second—Trustee's Powers and Duties

2.1 The Trustee shall receive any funds hereunder that are tendered to the Trustee hereunder and that the Trustee deems to be acceptable.

2.2 As directed by the Committee, the Trustee shall, with any cash at any time held by it, purchase or subscribe for and invest and reinvest in any securities or other property, including bonds, debentures, preferred stocks (except such stocks or bonds issued by the Employer), or mortgages on property owned by others but not by the Employer, and to retain as an investment any such investment or any other property which may be received by it even though such investments may not be those in which trustees are by law or any rule of Court authorized to invest trust funds. Provided, however, that the Trustee shall not invest the amount which the Committee informs the Trustee is credited to the members' Accumulation Account on the books of the Committee in any securities or other property except securities issued by or guaranteed by the Government of the United States of America.

2.2 (Alternate) All investments and reinvestments held here-

under from time to time shall be in the discretion of the Committee but shall be confined to those in which Trustees are authorized to invest trust funds by the laws of the state of ....
Note: Restriction is often based upon the investments allowed to life insurance companies.

2.3 The Trustee shall hold any or all of the trust fund in cash, uninvested, without liability for interest thereon as directed by the Committee or as a result of the failure or neglect of the Committee to direct the investment thereof.

2.4 As directed by the Committee, the Trustee shall sell or otherwise dispose of, for cash or on credit, any securities or other property at any time held by it. Any such sale, transfer, disposition, conversion or exchange may be made publicly or by private arrangement and no person dealing with the Trustee shall be bound to see to the application of the purchase money or to inquire into the validity, expediency or propriety of any such sale or other disposition.

2.5 As directed by the Committee, the Trustee shall exercise any conversion privilege or subscription right available in connection with any securities or property at any time constituting a part or all of the trust fund; shall consent to the reorganization, consolidation, merger or readjustment of the finances of any corporation, company or association any of the securities of which may at any time be held hereunder; exercise any option or options and make any agreement or subscription; deposit any investment with any reorganization or protective committee and delegate discretionary power thereto, and pay a part of the expenses of such committee and assessments or subscriptions in connection therewith and hold and retain any property acquired by means of the exercise of the powers expressed in this paragraph as may be directed by the Committee.

2.6 The Trustee is authorized in its discretion to sue or to defend any suit or legal proceedings by or against the Trust. In any action or proceeding affecting the Trust Fund, or affecting the administration thereof or for instructions to the Trustee, the Employer, the Committee, and the Trustee shall be the only necessary

parties. As directed by the Committee the Trustee shall compromise, submit to arbitration or settle any suit or legal proceedings, claim, debt, damage or undertaking due or owing from or to the trust fund. In the administration of the fund, the Trustee shall not be obligated to take any action which would subject it to any expense or liability unless it be first indemnified in an amount and in a manner satisfactory to it or be furnished with funds sufficient, in its sole judgment, to cover such expenses.

2.7 The Trustee is authorized in its discretion to register any securities or other property held hereunder in the name of the Trustee, or in the name of a nominee with or without the addition of words indicating that such securities or other property are held in a fiduciary capacity; and to hold in bearer form any securities or other property held hereunder so that title thereto will pass by delivery, but the books and records of the Trustee shall show that all such investments are part of the fund.

2.8 The Trustee is authorized in its discretion to employ such agents, counsel, actuaries, clerical help, custodial servants and others as the Trustee may deem necessary and to pay their reasonable expenses and compensation out of the trust fund if such expenses and compensation or either of them has not otherwise been paid.

2.9 The Trustee is authorized in its discretion to grant proxies, discretionary or otherwise, to vote at any meeting of stock or security holders, as it determines to be proper in the absence of any directions of the Committee to the contrary.

2.10 The Trustee is authorized in its discretion to borrow money from others including the Employer, and to advance its own funds to the trust fund, at any time and from time to time, upon such terms and conditions as the Committee may authorize, and for the sum so borrowed or advanced the Trustee may issue its promissory note as Trustee and secure the repayment thereof by the pledging of any securities or other property in its possession as Trustee hereunder, and may pay interest at such reasonable rate as may be approved by the Committee for any moneys borrowed from others or advanced by it for the benefit of the Trust.

2.11 The Trustee is authorized in its discretion to make, execute and deliver as Trustee any and all instruments in writing necessary or proper for the effective exercise of any of the Trustee's powers as stated herein or otherwise necessary to accomplish the purposes of this Trust.

Third—Payment of Expenses and Fees

3.1 The Trustee shall receive in addition to all of its expenses, such compensation as may be agreed upon from time to time by the Employer and the Trustee. If and to the extent that the Employer does not pay such compensation or expenses they shall be paid from the trust fund.

Fourth—Accounts

4.1 All moneys and other property and the income therefrom shall be held and invested as a single fund except only that the Trustee shall keep a separate account of the sums received which shall be credited to the Members' Accumulation Account as directed by the Committee. Except as aforesaid separate accounts or records may be maintained for operational and accounting purposes but no such account or record shall be considered as segregating any funds or property from any other funds or property contained in the trust fund.

4.2 The Trustee shall maintain such records of account as may reasonably be directed by the Committee.

4.3 The Trust may be valued in the manner and by the person or persons believed by the Trustee to be competent to make such valuation, and such valuation may be accepted and relied upon as the value of the property so appraised.

4.4 In no event shall the maintenance of an account by the Committee or Trustee or a record designated as the account of a Member mean that such Member shall have any interest in any specific asset in the trust fund.

4.5 The Trustee shall pay all such expenses and benefits as may be directed by the Committee and shall be fully protected in

making any payment pursuant to the directions of the Committee. The Trustee may make any payment required to be made by it hereunder by mailing its check for the amount thereof to the person to whom such payment is to be made.

Fifth—Protection of the Trustee

5.1 The Trustee shall be fully protected from any responsibility for action taken or omitted in accordance with the written instructions, directions or approvals of the Committee purporting to be signed by the person or persons authorized to sign for the Committee and which the Trustee believes to be genuine or in reliance upon a certified copy of a resolution of the Board of Directors of the Employer which the Trustee believes to be genuine.

5.2 The Trustee shall, once in each calendar year, render a written accounting of its administration of the trust fund. This accounting shall be transmitted to the Committee and to the Employer if requested by the Employer.

5.3 The Committee may approve such accounting by written notice of approval delivered to the Trustee or by failure to express objection to such accounting in writing delivered to the Trustee within .... days from the date upon which the accounting was delivered to the Committee.

5.4 Upon the receipt of such written approval of the accounting or upon the passage of said period within which objections may be filed without such objection being delivered in writing to the Trustee, such account shall be deemed to be approved and the Trustee shall be released and discharged as to all items, matters and things set forth in such account as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction in an action or proceeding in which the Trustee, the Employer, the Committee and all persons having or claiming to have any interest in the trust fund or under the Plan were parties. The Trustee shall have nevertheless the right to have its accounts settled by judicial proceedings if it so elects, in which event only the Trustee, the Committee and Employer shall be necessary parties.

5.5 The Trustee's responsibility hereunder is limited to the Trustee's own gross negligence or willful misconduct.

5.6 The Trustee shall be fully protected from any and all responsibility for the adequacy of the trust fund to meet and discharge any or all payments under the Plan.

5.7 The Committee shall have complete control and authority to determine the existence, non-existence, nature and amount of the rights and interests of all persons in or to the Trust Fund or under the Plan, and the Trustee shall have no power, authority or duty in respect of such matters or to question or to examine into any determination made by the Committee or direction given by the Committee to the Trustee. The Employer and the Committee shall have authority, either jointly or severally, to enforce this agreement on behalf of any and all persons having or claiming any interest in the Trust Fund or under this agreement or the Plan. It being the desire of the Employer to protect the Trust Fund from the legal expenses which might otherwise be incurred, it imposes as a condition for admission under the Plan and the securing of any interest in the Trust Fund, and it is hereby agreed, that no other person may institute or maintain any action or proceeding against the Trustee or the Trust Fund in the absence of written authority from the Committee, or a judgment of a court of competent jurisdiction that in refusing such authority the Committee has acted fraudulently or in bad faith. In any action or proceeding affecting the Trust Fund, or any property constituting part or all thereof, or the administration thereof, or for instructions to the Trustee, the Employer, the Committee, and the Trustee shall be the only necessary parties and no employees or former employees of the Employer or their beneficiaries or any other person having or claiming to have an interest in the Trust Fund or under the Plan shall be entitled to any notice or process, and any judgment that may be entered in such action or proceeding shall be binding and conclusive on all persons having or claiming to have any interest in the Trust Fund or under the Plan. The Employer agrees to indemnify and save harmless the Trustee against any liability, loss, cost or dam-

age that the Trustee may incur in the exercise and performance of its duties and exercise of its powers hereunder. The Employer further agrees to assume the defense of any and all actions, suits or proceedings brought or advanced by any Employee of the Employer, Member or beneficiary or personal representative of such Employee or Member or any combination of them against the Trustee or the trust fund or both. The Employer further agrees to indemnify and protect the Trustee from any and all claims, demands, suits or proceeding at law or in equity that may be brought by such Employees, Members or their beneficiaries or legal representatives.

5.8 The Committee shall have the authority, on behalf of all persons having or claiming any interest in the Trust or under the Plan, to adjust and settle all claims against the Trust and to determine all questions with respect to the administration of the Trust. The Trustee shall be fully released from liability to all persons having or claiming any interest in the Trust by receiving a release which may be given to it by the Committee.

Sixth—Removal or Resignation of Trustee and Appointment of Successor Trustee.

6.1 Any Trustee hereunder may resign from trusteeship hereunder at any time by giving at least.............. days' written notice of such resignation to the Employer. The requirement of such notice may be waived by the Employer.

6.2 Any Trustee may be removed with or without cause from trusteeship hereunder by the Employer giving at least .... days' written notice of such removal to the Trustee. The requirement of such notice may be waived by the Trustee.

6.3 The appointment and qualification of a successor Trustee to whom the trust funds may be transferred are conditions that must be fulfilled before the removal of a Trustee shall become effective.

6.4 The Employer shall appoint a successor Trustee in the event of the vacancy of the trusteeship resulting from the resignation,

removal or failure of the Trustee to continue as Trustee hereunder, such appointment to be made by an instrument in writing. Such appointment shall take effect when the original or duplicate thereof, together with the acceptance of the Trustee so appointed, shall be delivered to the Committee and the former Trustee.

6.5 The successor Trustee shall have all rights, powers, privileges, liabilities and duties of the former Trustee and may be an individual or individuals or a corporate fiduciary or fiduciaries or a combination of individual and corporate fiduciaries.

6.6 All instruments of resignation, removal, appointment and acceptance of appointment of a Trustee shall be executed and acknowledged as a deed to real property entitled to record in ....

Seventh—Amendment

7.1 The Employer specifically reserves to itself the right for itself and any of its associated corporations at any time and from time to time to modify or amend this agreement in whole or in part by action of its Board of Directors communicated to the Trustee in writing, provided, however, that no such modification or amendment shall increase or change the duties or liabilities of the Trustee without the Trustee's specific consent thereto in writing. Any such modification or amendment shall be effective for the Employer as well as for any of its associated corporations.

Eighth—Jurisdiction

8.1 This trust agreement and the trusts hereby created shall be construed, regulated and administred under the laws of the State (Commonwealth) of .... All contributions shall be paid or delivered to the Trustee hereunder in said state.

8.2 In the event any provision of this trust agreement shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of this trust agreement, but shall be fully severable and the trust agreement shall be construed and enforced as if said illegal or invalid provisions had never been inserted therein.

8.3 The Trust term shall be for such time as may be necessary to accomplish the purposes for which it was created, provided nevertheless that in no event shall the term exceed the limits determined by legislation or judicial decision of the State (Commonwealth) of ....

Ninth—Third Party Rights

9.1 All persons dealing with the Trustee are hereby released from any necessity for questioning the authority of the Trustee hereunder or from seeing to the application of any moneys, securities or other property paid or delivered to the Trustee as a purchase price or otherwise. Nor shall any such person be required to question any authorization or direction of the Committee.

Tenth—Termination

10.1 This agreement and trust may be terminated at any time by the Employer upon written notice delivered to the Trustee. Upon such termination the trust fund shall be liquidated within such reasonable period as may be determined by the Trustee and shall be paid out and distributed by the Trustee in accordance with the written directions of the Committee, or in the absence of such directions in such manner as may be directed by the decree or judgment of a court of competent jurisdiction. Unless sooner terminated, the trust created hereunder shall terminate when there shall be no funds remaining in the hands of the Trustee hereunder.

10.2 If the Trust is terminated for any reason, the Trustee may, without the direction or approval of the Committee, reserve from the trust fund such reasonable amount or amounts as it may deem necessary to provide for payment of any of its expenses then or thereafter due and payable, and the amount of any compensation then or thereafter due to it, and any sums then or thereafter chargeable against the trust fund for which it may be liable; but if the amounts so reserved by the Trustee are not sufficient for such purposes, the Trustee shall be entitled to reimbursement for any deficiency from the Employer.

Eleventh—Associated Corporations

11.1 Each of the following named corporations (hereinafter sometimes referred to as "Associated Corporations"), organized and existing under the laws of the states set opposite their names, to wit,

each of which is a subsidiary or affiliate of the Employer, proposed to secure the benefits of the Plan for its employees who would be entitled to participate therein if they were the employees of the Employer and each will contribute to the Trust Fund, although they hereby undertake no contractual obligation so to do, the additional amounts which the Employer would contribute under the provisions of the Plan if the employees of each of such corporations were employees of the Employer and said corporations have become parties to this agreement, in order that the contributions which may be made by them shall be held by the Trustee as a part of the Trust Fund. The Trustee agrees that it will receive any such contributions made by said corporations and hold the same under the provisions of this agreement as a part of the Trust Fund.

11.2 Each Associate Corporation hereby appoints the Employer its agent to exercise in its behalf all the powers and authority hereby conferred upon the Employer by the terms of this agreement. The authority of the Employer to act as such agent shall continue with respect to all funds contributed by each Associate Corporation until and unless the amount so contributed shall be segregated and set aside in a separate trust as provided in Section 11.3 hereof.

11.3 Each Associate Corporation reserves the right to cause to be set aside from the Trust Fund a part thereof equal to the proportion which the amount contributed by said Corporation bears to the total amount contributed by the Employer and all Associate Corporations, but until and unless an Associate Corporation shall request such segregation, or the Committee shall so direct, all funds received by the Trustee shall be held in a common fund. For the purposes of this Section 11 contributions by em-

ployees of a corporation shall be treated as contributions of such corporation.

Any part which is segregated and set aside from the Trust Fund shall be designated by the name of the Associate Corporation for the benefit of whose employees, former employees, and their beneficiaries said fund shall thereafter be held, and shall be held upon a separate trust similar to that hereby established, except that with respect thereto this agreement shall be construed as if the Associate Corporation, whose name designates said part, had been named herein as the Employer, and thereafter all powers and authority conferred upon the Employer shall devolve upon said Associate Corporation, and all power and authority conferred upon the Committee shall devolve upon a committee appointed by said Associate Corporation.

The Employer shall have the right to cause the separation and setting apart for any Associate Corporation of a part of the Trust Fund representing the proportionate contributions of said Corporation.

11.4 Upon the request of the Employer or an Associate Corporation, the Committee shall give written directions to the Trustee with respect to separating and setting aside from the Trust Fund of the part thereof representing the proportionate contribution of an Associate Corporation as provided in Section 11.3 hereof. Such direction of the Committee to the Trustee shall specify not only the amount to be set apart, but the particular assets of the Trust Fund which shall be used to constitute such separate part. The Trustee shall follow such directions of the Committee, which shall constitute a conclusive determination that the amount and the assets so set apart represent the share which should be held upon a separate trust for the benefit of the employees, former employees and their beneficiaries of said Associate Corporation by whose name said part is designated, unless the Employer or one or more of the Associate Corporations shall file with the Trustee a written protest within thirty days after notification of the allocation directed by the Committee. Any dispute with regard to the separation of the Trust Fund, unless it shall be otherwise adjusted

to the satisfaction of the Employer, and each Associate Corporation, whose agreement shall be conclusive with respect thereto, shall be settled by arbitration in accordance with the rules then obtaining of the American Arbitration Association, to which arbitration the Employer, each Associate Corporation, the Committee and the Trustee shall be parties, and judgment upon the award rendered may be entered in the highest court of the forum, state or federal, having jurisdiction.

Twelfth—Administrative Committee and Name

12.1 The members of the Committee who are acting from time to time shall be deemed to constitute the Committee. If at any time there is no member of the Committee then the Board of Directors of the Employer shall be and be deemed to be the Committee with all the powers and authority conferred upon the Committee by the Plan or this agreement.

12.2 This Trust herein created shall be known as ". . . . . Company Pension Trust."

Thirteenth—Execution

13.1 This trust agreement shall be executed in. . . . . counterparts, each one of which shall be deemed to be the original although the others shall not be produced.

IN WITNESS WHEREOF the parties hereto have caused these presents to be executed by their duly respective authorized officer or officers and their respective corporate seals to be hereunto affixed on (or as of) the day and year first above written.

. . . . Inc
(Employer)

By . . . .
(Title)

. . . .
(Trustee)

By . . . .
(Title)

NOTE:

Notarial acknowledgments should be included for both the Employer and the Trustee. The particular wording and form of these acknowledgments should be carefully selected to conform to the local jurisdictional requirements for individuals, corporations and associations. The precise requirements are matters of general knowledge locally in the various states so it is deemed inadvisable to set forth the various wordings here. The reason for the requirement of acknowledgment is to cause the paper to be fully recordable and probative.

APPENDIX 10

GLOSSARY OF PENSION TERMS

Many of the "pension terms" in current use have several meanings. A fixed-benefit plan is one thing to one person and something else to another. This glossary doesn't attempt to cover all the meanings, but where a real distinction is known to exist, attention is called to that fact.

Some 90 of the words below belong in the active vocabulary of everyone who rubs elbows with a pension plan or pension planning. The remaining 25 (each marked with an *asterisk*) are semitechnical terms used primarily in connection with computing pension costs and establishing tax deductions for those costs. Unless you're a cost or tax man, you may never have occasion to use them. But everybody in the pension picture will probably bump into them at one time or another.

Two classes of terms have been deliberately omitted from this glossary: the technical jargon of the actuarial or pension specialist, and the highly "localized" expressions that have grown up within many companies. The former is necessarily complicated and seldom used; the latter is often unnecessarily complicated and of limited application.

GLOSSARY

**Accrual Rate.* The percentage of payroll you have to put into a fund each year to be sure there will be enough money on hand to pay promised pensions when due. Used in connection with aggregate cost funding method. (*Technically:* Present value of all prospective future benefits divided by present value of total prospective earnings to retirement.)

**Accrued Liability.* The single-sum, total cost of a pension plan that would pay benefits based only on service up to the present time. (*Technically:* The aggregate past service cost at any time; represents the value at that time of that portion of the total estimated cost of the plan which is attributable to prior years.)

Actuarial Equivalent. The amount of annual pension you can pay starting at any given age for exactly the same *cost* as a normal pension starting at age 65. (*Example:* If it costs about $15,000 to pay an employee a pension of $100 a month starting at age 65, for the same $15,000—less 5 years' interest—you can only pay him about $65 a month starting at age 60, because he will probably live longer.)

Actuarially Determined Amount. The amount of the contribution or payment that must be made to a pension fund in order to keep the fund actuarially sound.

Actuarially Reduced Pension. A term used to describe the size of benefits paid to an employee who retires before normal retirement age. (See *Actuarial Equivalent.*)

Actuarially Sound. A term used to describe a pension plan or fund to which the employer or the employer and employees are making big enough contributions to guarantee that it will be possible to pay the promised benefits *providing* the assumption as to how long employees will live is correct.

Actuary. A man who studies births and deaths, and figures out on the basis of past experience how long the average person at any given age can expect to live. With this information plus a specialized knowledge of mathematics, statistics, and legal-accounting methods, the actuary can compute the cost today of providing benefits tomorrow.

Administrative Committee. The committee charged with the responsibility for operating the pension plan once it is set up. The responsibilities of administrative committees vary tremendously from one company to another.

**Aggregate Cost Funding Method.* One of the many ways of determining the amount of the annual contribution necessary for an uninsured plan. You determine the total or "aggregate" of both

accrued and future liability and pay into the fund an amount of money big enough so that next year the fund will be larger in proportion to the accrued liability than it is this year. (*Technically:* Determine the present value of future benefits based on accrued liability. Add to this the present value of future benefits based on prospective future service liability. From the sum, subtract the total of all moneys in the fund at the present time. Divide the remainder by the present value of prospective future earnings to retirement date by all employees. This is the accrual rate or percentage of covered payroll necessary to pay into the fund.)

Annuitant. Anyone who is receiving an annuity. In pensions, a retired employee receiving regular payments from the company.

Annuity. Strictly, the payment of a certain sum of money each year for a certain number of years or for life. As it relates to pensions, an annuity is generally understood to be a payment of a certain sum of money each year or each month for the remaining life of a retired employee.

Annuity, Joint and Survivor. A modified form of annuity, under which payments continue not only for the lifetime of the retired employee, but also for the remainder of his wife's life, if she should outlive him. The monthly payments under a joint and survivor annuity are smaller than under the regular life annuity because the payments will have to be made over the additional number of years that the survivor lives.

Annuity, Modified Refund. A type of annuity commonly used with contributory plans, under which the heirs of a pensioner who dies receive a cash payment in an amount equal to the total of the employee's contribution, less any money that has already been paid to him in the form of pension. (This insures that under a contributory plan an employee will never receive back less than he puts in.)

"Approved" Pension Plans. A term applied to certain plans meeting requirements set forth in Section 165(*a*) of the Internal Revenue Code. Plans which are "approved" under the terms of

that section permit the employer to get a tax exemption for his contribution.

**Attained Age Normal Cost Method.* A method of figuring pension costs for an uninsured plan under which the size of each individual pension is determined by the unit benefit method. It is similar to the aggregate cost funding method, except that you do not take into consideration past service cost; this method is for determining the cost of estimated future service credit. (*Technically:* Cost for the first year is determined by spreading the estimated present value of all benefits expected to be credited for future service of the initial members over their expected future service as a level percentage of expected future compensation. Past service cost is generally handled by the frozen initial liability method, but other means may be used.)

Beneficiary. Someone designated by an employee to receive whatever benefits may be paid as a result of his death.

Benefit. The amount payable to an employee as pension, or to his beneficiaries in the event of his death. (See *Flat Benefit Plan; Definite Benefit Plan; Unit Benefit Plan;* and *Money-Purchase Plan.*)

Board of Trustees. Properly, the group of men who have responsibility for handling the funds under an uninsured plan. As the term is currently being used by unions, a group of men who would not only have responsibility for handling money, but who would also administer the plan. (For this usage, see *Administrative Committee.*)

Cash Surrender Value. A term used in connection with life insurance. The amount of money you get back from an insurance company when you turn in a life insurance policy.

Churchill Formula. A formula for computing the size of pension payments. It is based on a percentage of average earnings, plus a small percentage of each year's income times the number of years of service.

Combination Plan. Any pension plan using more than one method of computing benefits or more than one method of funding. In

popular usage, a plan that combines both insurance and an uninsured fund.

Company-financed Plan. A pension paid for entirely by the employer.

Compulsory Retirement. Policy of requiring a worker to retire at a given age. Generally associated with a pension plan.

Contingency Reserve. Money accumulated in a fund or by an insurance company to cover possible losses on investments, or to make good in case pensioners live longer than anticipated.

Contingent Annuity. (See *Annuity, Joint and Survivor.*)

Contributory Plan. A pension which is partly paid for by the participating employees.

Covered Employees. Employees who either are participating in a pension plan, or who could, if they elected, participate in the pension plan.

Covered Payroll. The payroll of those employees who are actually participating in a pension plan.

Creditable Service. The years of service which are counted in figuring the size of an employee's pension.

Death Benefit. An amount of money paid to an employee's heirs in the event of his death, either before retirement or after retirement.

Deferred Annuity. Payment of a certain number of dollars each month or each year (usually for life) beginning at some future date.

Deferred Wages. Money not paid when it is earned, but held by the employer or by an insurance company to be paid at some later time. Specifically, the cost of a pension has been held to represent deferred wages.

Definite Benefit Plan. Any plan under which a specified schedule of payments is promised, irrespective of cost. Contrasted with the money-purchase plan, in which the cost is fixed and the payments will vary according to the amount of money available at the employee's retirement. Some people use definite benefit plan to identify plans in which the payments are based on in-

come, on years of service, or both. (As distinguished from a flat benefit plan.)

Delayed Retirement. Retirement taking place after the normal retirement age, usually only with company consent or at company request.

Deposit Administration Plan. A plan under which benefits are funded by payments to an insurance company to be held in a general account from which are drawn the amounts required to purchase, at retirement, annuities for employees.

Disability Experience. The number of persons per 1,000 of a given age who are totally and permanently disabled each year.

Disability Retirement (Pension). A pension paid for life to an employee who is totally and permanently disabled.

Discounting for Mortality. Figuring the percentage of people of any given age who are likely to live to retirement, and then making payments into the pension fund only for those people, rather than for all employees at that age. (*Example:* Of 100 employees age 30, only about 72 will live to retirement. If the payment made to the pension fund is only big enough to provide pensions for 72 employees, the payment is said to be "discounted for mortality.")

Discounting for Withdrawals. Figuring out how many of your employees of any given age are likely to leave your employ before they reach retirement, and making payments into the pension fund for only as many employees as you expect to stay to retirement. (*Example:* Of 100 employees age 30, you estimate that 50 will leave your employ, other than by reason of death, before reaching normal retirement age. If your payments into the pension fund are only sufficient to provide pensions for the 50 remaining employees, you are said to have "discounted for withdrawals.")

Early Retirement. Retirement before reaching normal retirement age, usually on an actuarially reduced pension.

"80 Rule." An arbitrary rule for determining normal retirement age, the age at which an employee may voluntarily retire on an

actuarially reduced pension, or the age at which an employee becomes vested. The rule is: Actual age plus years of service equals 80.

Eligibility Requirements. The conditions an employee must meet before he can participate in a pension plan. Most common requirements are attainment of a certain age, completion of a certain number of years of serviice, attainment of a certain income level, or holding a job classified in a certain way.

**Entry Age Normal Cost Method.* A method of approximating future pension costs as a percentage of payroll, under which you assume that any new employees coming under the plan will do so at some average entry age.

Face Value. An insurance term meaning the amount of money that will be paid when certain conditions are filled. Most commonly used in connection with life insurance, where it means the amount of money that will be paid to an employee's heirs at the time of his death.

Fixed-benefit Plan. In general usage, the same thing as a definite benefit plan. Some people make a distinction and use "fixed-benefit" only in the sense of a flat benefit plan.

Flat Benefit Plan. A plan under which the amount of the pension is some arbitrary figure like $100 a month, regardless of income or years of service.

**"Freezing" Past Service Credit.* A way of handling the cost of past service credit (credit given for years in which you were not setting aside any money for pensions). When you "freeze" past service credit you assume that the plan will go on forever and that therefore you will never have to pay the pensions based on past service credit. Where you "freeze" past service credit in computing cost, you pay into the pension fund each year the current service cost, plus interest on the "frozen" past service credit.

**Frozen Initial Liability Cost Method.* A method of computing pension costs under which you "freeze" past service credit.

**Full Funding.* Putting aside each year enough money to guarantee the payment when due of the pension attributable to *this*

year's service. (In this sense, full funding is the same as funding current service.) Strictly, full funding also implies putting aside some money each year to reduce the accrued liability. Some people interpret full funding to mean, in addition, that each individual employee's past service credit is being paid up fast enough so that there will be no accrued liability with respect to that employee when he reaches retirement.

**Fully Funded Pension*. Correctly, a pension plan in which all past service credit (accrued liability) has already been paid for, and in which there is full funding of the pension currently being earned. In more general usage, any pension plan in which there is full funding of the pension currently being earned, and in which payments are being made on a regular schedule to reduce accrued liability.

Fund (noun). Money or investments put aside to pay pensions when they become due.

Fund (verb). To put aside money to pay pension benefits in advance of the time they become due. Sometimes, to purchase annuities from an insurance company.

Funded Plan. Generally, any plan in which pensions are paid from an accumulated fund, as distinguished from an insured plan, where the actual pension payments are made by the insurance company. Some people use the term merely to distinguish a plan in which some or all of the money for pensions is put aside in advance from a pay-as-you-go plan, under which pension payments are made as an out-of-pocket cost as they become due.

**Funding at Retirement*. Waiting until the day each employee retires before putting aside any money with which to pay his pension, and then putting aside enough to guarantee the payment of his pension for life.

**Funding Current Service*. Putting aside enough money each year to guarantee payment when due of the pensions arising from this year's service. Full funding is sometimes used synonymously with funding current service.

**Funding Future Service*. Same as funding current service.

Funding Method. (1) May refer to whether a plan is funded through an insurance company or through an uninsured trust fund. (2) May refer to whether the cost of an uninsured trust fund plan is determined by the aggregate cost funding method, attained age normal cost method, entry age normal cost method, individual funding to normal retirement age cost method, level annual premium cost method, money-purchase cost method, single premium cost method, or unit credit cost method.

Funding Past Service Credit. Putting aside money to pay that part of each employee's pension arising from years of service before the plan was installed. (*Technically:* Making regular payments to reduce unfunded initial accrued liability.)

**Future Benefits* (*Present Value of*). The amount of money you have to put up today so that, with interest, you would not have to put up any more money to pay pensions for life to all employees, based on past service credit and prospective future service credit accumulated from now to normal retirement date.

Future Service Credit. The amount of pension that will be paid each year or each month after retirement as a result of each year's work between now and retirement.

Group Annuity. A contract with an insurance company under which the company guarantees to pay each worker in the group so much per month beginning at age 65 for as long as he lives.

Group Annuity Plan. A pension plan under which payments are guaranteed by group annuity contracts with insurance companies.

Group Permanent Insurance. A type of contract with an insurance company under which the company, in return for an annual premium, promises to pay a certain death benefit to the heirs of an employee who dies before retirement, and to pay a certain amount of money each month for life to each employee in the group after he actually retires.

Group Permanent Plan. Any pension plan for which the benefits are guaranteed by group permanent insurance.

Indefinite Benefit Plan. As distinguished from a definite benefit plan, any pension plan in which there is no specified schedule of pension payments. (See *Money-purchase Plan.*)

Individual Annuity. A contract with an insurance company under which the insurance company guarantees to pay an individual employee a certain amount of money per month or per year starting at age 65 for as long as he lives. With pensions, generally used only where the number of employees to be covered is not large enough to permit the use of group annuities.

Individual Contract Pension Trust. A type of pension plan in which a trustee receives money from the company and with that money buys individual annuities for the employees. Although the trustee holds title to the individual annuity policies until the employee retires, the pension is fully guaranteed by the insurance company, and payments are usually made by the insurance company direct to the retired employee. The trustee serves no real function in most cases, and is used merely to avoid certain legal difficulties.

**Individual Funding to Normal Retirement Age Cost Method.* You assume that the rate of income of each individual employee when he is first covered will continue to normal retirement age. You then determine the total cost of all benefits for each employee based on this assumption, and pay into the fund a level amount each year from the time he is first covered to normal retirement age.

Insured Plan. Any plan under which payment of pensions is guaranteed by an insurance company.

Integrated Plan. In general usage, any pension plan in which the schedule of benefits includes some or all of the pension the employee can expect from Social Security. Correctly, a pension plan in which the schedule of benefits is adjusted to compensate for the fact that Social Security pensions are based only on the first $3,000 of annual earnings.

**Level Annual Premium Funding Method.* Same thing as individual funding to normal retirement age cost method, except that you compute the level annual cost for all employees in each age group instead of for each individual employee.

Life Insurance (Ordinary Whole Life). A type of life insurance for which the same premium is paid each year from the time the

policy is written until the death of the covered individual. Such policies have a cash surrender value which will be paid by the insurance company when the policy is canceled.

Life Insurance (with Retirement Income). A type of policy written by an insurance company under which the company will pay a death benefit in the amount of the face value of the insurance if the employee dies before retirement, or will pay a certain amount for life to the employee after he retires.

Life Expectancy. The number of years a person of any given age can expect to live, on the average.

**"Loading" Factor.* A percentage which insurance companies add to the actuarially determined cost of any given type of insurance, to provide for administrative expense and for contingencies.

**Minimum Funding Period.* This is a reference to the fact that you cannot claim as tax deduction in any one year more than 10 per cent of the total past service cost. You sometimes hear this referred to as the "10-year funding period."

Money-purchase Plan. A pension plan in which no definite schedule of benefits is promised. The employer merely puts up a certain amount of money each year and allocates it among the covered employees. The size of the pension received by each employee will be determined by the total amount of money which has been allocated to him on retirement date.

Mortality Assumption. This is the assumption you make as to the number of employees and retired employees of each age who will die each year.

Mortality Experience. An actual record of the number of people in any given group who have died at each age each year over some period in the past. Mortality experience is used as a guide in making mortality assumptions for future years.

Mortality Table. A tabulation of the mortality experience of a given group. In a mortality table, the data derived from mortality experience are generally arranged in such a way as to indicate the number of people per 1,000 at each age who can expect to die each year, the percentage of people of each age who can expect to live to be 65, and the average number of years that a person

of any given age can expect to live. Some big companies that have been in existence a long time have developed mortality tables based on their own experience. Most published mortality tables in general use are based on the experience of insurance company policy holders. The two tables most commonly used at the present time are the Commissioners Standard Ordinary Table, published in 1941, and the Standard Annuity Table, published in 1937. The so-called "U.S. Life" Tables are based on data collected by the U.S. Bureau of the Census and give mortality statistics for the nation as a whole.

Noncontributory Plan. A pension paid for entirely by the employer.

Normal Retirement Age. The age at which, under ordinary circumstances, an employee is expected to quit active work and start receiving a pension. In the great majority of existing pension plans, normal retirement age is 65.

Ordinary Life Pension Trust. A combination-type pension plan in which a trustee buys ordinary life insurance policies for each covered employee. When the employee retires, the policy is surrendered to the insurance company for its cash value. This cash value plus the accumulations in a separate trust fund are used to provide the employee's pension, either directly from the fund or by purchasing a paid-up annuity.

Paid-up Annuity. An annuity, the entire cost of which has already been paid, as distinguished from an annuity which is purchased through annual payments which have not yet been completed.

Participating Service. The number of years that an employee is fully covered by a pension plan. Most frequently used in connection with contributory plans to designate the number of years during which the employee contributed.

Past Service Credit. The credit given a worker toward his pension for service with the company prior to the time the pension plan was established.

**Past Service Liability.* Cost to the company of providing the pensions based on past service credit. (*Technically:* Accrued liability at the time the plan is established.)

Pay-as-you-go Plan. A pension plan in which payments are made to

workers as an out-of-pocket expense by the employer, rather than from a fund. Generally referred to as an "unfunded" plan.

Pension Committee. Same thing as an administrative committee or board of trustees (as unions generally use the latter term).

Pension Trust Fund. The accumulation of money from which pensions are paid in an uninsured plan.

Premium. The amount of money paid to an insurance company either as a single sum or as an annual amount in return for guaranteeing the payment of certain benefits.

**Present Value.* The amount of money you have to put up today to make certain payments in the future. Because the money you put up will earn interest until it is paid out, the present value of future payments is always less than the total of those payments. (See *Future Benefits; Temporary Annuity.*)

Profit-sharing Plan. As the term is used in connection with pensions, a money-purchase plan in which the company's contributions are determined by the amount of profit earned in any given year. More properly spoken of as a "deferred profit-sharing" plan.

"Qualified" Pension Plan. Same thing as an "approved" plan.

Retirement Age. Actually, the age at which an employee quits work and goes on pension. In general usage, same thing as normal retirement age.

Self-administered Trusteed Plan. Any plan in which the money to pay for pensions is accumulated in a trust fund.

Settlement Option. The choice sometimes given an employee to receive his normal pension for life or to receive a smaller amount and have the payments continue to a second person either for a certain number of years or for life.

Severence Benefits. As used in pension plans, vested rights.

**Single Premium Funding Cost Method.* A method of funding current service by which you pay into a fund the present value of the amount of pension due an employee as a result of this year's work.

**Straight-line Funding Cost Method.* Same as level annual premium funding cost method.

*"*Suspension" of Contributions.* A term used to describe a temporary halt in the making of contributions by the employer without actually terminating the plan. Suspension of contributions is a complicated legal matter that must be arranged in advance with the Bureau of Internal Revenue.

**Temporary Annuity (Present Value of)*. The amount of money you would have to put up so that, with interest considered, you could pay out a certain number of dollars each year for a given number of years. (In pensions, when the word "annuity" is not modified as "temporary," it is generally understood to mean the payment of a certain number of dollars per month or per year *for life*.)

Termination. Calling off a pension plan. Usually used with reference to the special requirements for tax exemption.

*"*30 Per Cent Rule."* One of the requirements for getting approval of a pension plan from the Bureau of Internal Revenue. The rule says that not more than 30 per cent of the total contribution may be on behalf of employees who are also stockholders. (For the purpose of this rule, a stockholder is defined as someone who owns more than 10 per cent of the voting stock.)

Trust Agreement. A legal document which binds the company and the trustee to certain conditions and rules under which the trustee is to run the fund and make payments to pensioners. Also called a trust "indenture."

Trustee. The man or company in charge of managing the money and investments of a pension fund. As unions are now using the term, one of a group of men who would not only manage the money and investment, but would also manage the operation of the plan.

Trust Fund. The accumulation of money or investments from which pensions are paid.

Turnover Rate. The annual rate of employee separations due to all causes except death.

Unfunded Plan. A pension plan in which pensions are paid to retired employees as an out-of-pocket cost as they become due. (Same as a pay-as-you-go plan.)

Uninsured Plan. Any plan in which benefits are not guaranteed by an insurance company. More often the term is used to distinguish a funded plan not carried by an insurance company from an unfunded or pay-as-you-go plan. In this latter sense, uninsured plan is synonymous with self-administered trusteed plan.

Unit Benefit Plan. Any plan in which the annual pension is the sum of the "units" credited to each employee as a result of each year's service. The term is sometimes used in a more limited sense to describe only those plans in which the annual pension is a certain percentage of each year's income. (A certain percentage of total income or a certain percentage of average income times years of service are other ways of saying the same thing.)

**Unit Credit Cost Method.* A method of figuring pension costs for unit benefit plans. When it is used in connection with group annuities, you figure out the total number of units of retirement income (1 unit is usually $1 per year or $1 per month) earned by *all* employees in each age group for this year. The premium for each unit will be different for each age group. You find your total annual cost under this method by multiplying the premium per unit by the number of units earned by the employees in each age group, and then adding all the premiums so determined. (Occasionally used in connection with uninsured plans, and when so used it is the same as the single premium funding cost method.)

Vested Rights. The permanent interest or equity an employee gets in the employer's pension contribution after he has fulfilled certain conditions. (*Example:* If an employee gets a "vested right" after 10 years, it means that if he leaves the company after that time he can take with him the money that the company has contributed up to that point to pay his pension. Frequently, vested rights may not be taken in the form of cash. In these cases, the "vested" employee will receive, starting at normal retirement age, whatever pension he has earned up to the time he leaves the company.)

Vesting. The process of giving an employee a permanent right or

interest in the contributions the employer has made in his behalf. Vesting is the process that makes it possible for an employee to "take his pension with him" from one job to another.

Withdrawal Rate. The percentage of employees in each age group who terminate employment each year for any reason other than death. In this sense, it is the same as turnover rate. Some companies with contributory plans distinguish between the two by using withdrawal rate to refer only to the percentage of employees in each age group who each year cease participating (withdraw) by stopping their contributions.